

## REPORT TO AUDIT COMMITTEE – 1 JULY 2021

### ANNUAL AUDIT COMMITTEE REPORT 2020/21

#### **1 Reason for Report / Summary**

- 1.1 Audit Committee is requested to consider and comment on the Draft Annual Audit Committee Report 2020/21.

#### **2 Recommendations**

**The Committee is recommended to:**

**2.1 Consider and comment on the Audit Committee Annual Report 2020/21 (“the Annual Report”) (attached as Appendix 1 to this report);**

**2.2 Note that the Annual Report, including any comments from this Committee, will be considered by Full Council as part of the Council’s Annual Performance Report on 23 September 2021.**

#### **3 Purpose and Decision Making Route**

- 3.1 The self-evaluation exercise undertaken by the Council in 2020 identified a need to prepare an annual report of the work of the Audit Committee to inform Members of the work of the committee.
- 3.2 The report covers the period from 1 April 2020 to 31 March 2021. The final report will be considered by Full Council on 23 September 2021.

#### **4 Discussion**

- 4.1 The Audit Committee is responsible for internal and external audit matters, financial management and scrutiny of the Integration Joint Board for Health & Social Care.
- 4.2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 4.3 Audit committees are an important source of assurance about an organisation’s arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

## 5 Council Priorities, Implications and Risk

5.1 This report helps deliver all six of the Council's Strategic Priorities

| <b>Pillar</b>          | <b>Priority</b>                                          |
|------------------------|----------------------------------------------------------|
| <i>Our People</i>      | <i>Education<br/>Health &amp; Wellbeing</i>              |
| <i>Our Environment</i> | <i>Infrastructure<br/>Resilient Communities</i>          |
| <i>Our Economy</i>     | <i>Economy &amp; Enterprise<br/>Estate Modernisation</i> |

5.2 The table below shows whether risks and implications apply if the recommendation(s) is(are) agreed.

| <b>Subject</b>                                            | <b>Yes</b> | <b>No</b> | <b>N/A</b> |
|-----------------------------------------------------------|------------|-----------|------------|
| Financial                                                 |            |           | x          |
| Staffing                                                  |            |           | x          |
| Equalities                                                |            |           | x          |
| Fairer Scotland<br>Duty                                   |            |           | x          |
| Town Centre First                                         |            |           | x          |
| Sustainability                                            |            |           | x          |
| Children and<br>Young People's<br>Rights and<br>Wellbeing |            |           | x          |

5.3 An equality impact assessment is not required because the report records the work of the Committee and there will be no differential impact, as a result of the report, on people with protected characteristics. Any further actions or recommendations which might impact on groups with protected characteristics will be individually impact assessed.

5.4 The following [Corporate Risks](#) have been identified as relevant to this matter on a Corporate Level:

- ACORP001 – budget pressures
- ACORP004 – business and organisation change (including ensuring governance structures support change; managing the pace of change)
- ACORP006 – reputation management including social media
- ACORP007 – social risk (e.g. population changes, poverty and social inequality, demographic changes, crime and anti-social behaviour)

## 6 Scheme of Governance

6.1 The Interim Chief Internal Auditor, the Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report

and their comments are incorporated and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

- 6.2 The Committee is able to consider and take a decision on this item in terms of Section G.1.2(a) and Section G.1.6 of the List of Committee Powers in Part 2A of the Scheme of Governance as it relates to the review of the adequacy of the Council's policies and practices employed to ensure compliance with the Best Value duty and aligns with the approval and review of the annual Self-Evaluation Report arising from the Code of Corporate Governance.

**Ritchie Johnson, Director of Business Services**

Report prepared by Fiona McCallum, Business Strategy Manager  
Date 27 May 2021

**List of Appendices –**

Appendix 1: Audit Committee Annual Report 2020/21

## **ANNUAL AUDIT COMMITTEE REPORT 2020/21**

### **Welcome to the Aberdeenshire Council Audit Committee Report for 2020/21**

This is the first Audit Committee Annual Report since Aberdeenshire Council undertook a comprehensive review of its governance arrangements during 2016/17 and adopted the Scheme of Governance in 2017. That review resulted in whole-scale change to the decision-making and scrutiny structure which saw the responsibility for scrutiny being shared across all policy committees and heralded the beginning for the newly formed Audit Committee.

This annual report provides further information around the membership and roles and remit of the Committee, as well as sharing details of some of the work that the Committee has been involved in during the year 31 March 2020 to 1 April 2021.

As an organisation, the last 14 months or so have required us to make many changes in order to ensure continuity of both critical service delivery and the democratic process. The good governance that was in place prior to the pandemic enabled us to adapt swiftly to the changing environment whilst retaining openness, transparency and accountability.

Over summer 2020 the Audit Committee undertook a self-evaluation exercise, looking at our effectiveness, our composition, role and function. The self-evaluation was completed by Audit Committee members and substitute members as well as officers who regularly attend our committee. A number of strengths as well as areas for improvement were identified and a follow-up workshop was held in December to further explore the issues raised. It also provided an opportunity to consider whether we as a committee are doing everything we should be doing and how effectively we monitor our own business. A number of areas for improvement were already being actively progressed as part of existing corporate improvement programmes and more collaborative working with policy committees was highlighted as an area where we could do better.

In October 2020 Audit Scotland published its Best Value Assurance Report on Aberdeenshire Council. An action plan was agreed by Full Council in November 2020 and the Audit Committee has a pivotal role, with the Strategic Leadership Team, in overseeing the implementation of the action plan.

As well as our regular internal and external audit reports and scrutiny work, the last year has seen further development of the Corporate Governance Framework. New processes have been developed and implemented around which we hope are enhancing the role of Policy Committees in Corporate Governance as well as ensuring the openness, transparency and accountability among us all.

The Audit Committee continues to concentrate on the issues that can effect change and improvement. The budget pressures in public spending that existed long before Covid mean that it is even more crucial that the Council is assured that resources, fiscal and staff, are well managed and focused on where they have the greatest impact on serving the communities of Aberdeenshire. The services we deliver are

crucial for all, and if our Committee can find even one small way to help effect change and make the whole organisation more efficient and cost effective then we shall have done our job.

Cllr Ross Cassie

Cllr Alistair McKelvie

## **Members of the Committee**

The Audit Committee has 14 members and 13 substitute members, details of whom can be found using [this link](#).

The Committee is chaired by a member of the opposition to reinforce the independence of the Committee from the Administration.

During 2020/21 the Committee met seven times. You can find details of all our meetings using [this link](#).

## **What do we do?**

### **Role and remit of the Committee**

The role of the Committee is fully defined in the Aberdeenshire Scheme of Governance which can be found [here](#) and the List of Committee Powers which you can find using [this link](#).

We are responsible for

- a. Aberdeenshire Integration Joint Board Scrutiny
- b. External Audit
- c. Financial Management
- d. Internal Audit

We are here to review the adequacy of:

- a. Internal control systems;
- b. Policies and practices employed to ensure compliance with relevant statutes, directions, guidance and policies;
- c. Financial information presented to the Council; and,
- d. Risk management and risk assessment arrangements and procedures.

We review financial statements, management letters or reports and compliance with relevant codes of practice.

We manage the relationship with the Chief Internal Auditor ensuring that the Council's Internal Audit function is properly resourced and has appropriate standing within the Council and to review the activities of the Internal Audit function, including its annual work programme.

We manage all aspects of the Council's relationship with its external auditors.

We review and approve the Council's Code of Corporate Governance and annual Self-Evaluation Report.

We consider and approve for signature the Council's audited Annual Accounts in accordance with the statutory duties under the Local Authority Accounts (Scotland) Regulations 2014 and

We receive and provide feedback on reports from the Integration Joint Board Audit Committee.

## **WORK OF THE AUDIT COMMITTEE IN 2020/21**

### **Scrutiny**

The Committee has a role in undertaking scrutiny in specific circumstances:

- a. We can review the effectiveness of the Council's delivery of adult social work services on behalf of and under directions from the Aberdeenshire Integration Joint Board.
- b. We can refer a matter identified for improvement from Audit reports to the appropriate Policy Committee and request the Policy Committee conducts the Committee Review Process ("scrutiny referral"). In certain circumstances we may undertake the Committee Review Process if the Policy Committee declines to progress the matter.

The Committee Review Process was introduced as part of the Scrutiny at Aberdeenshire guidance under Part 4A of the Scheme of Governance. You can read more about our scrutiny processes [here](#).

Since its introduction in 2017, the Committee has made eight scrutiny referrals to Policy Committees. The Committee has also conducted the Committee Review Process on two occasions in relation to matters within its own remit.

During 2020/21 the Committee made one scrutiny referral, considered one Stage 1 Report and received reports on the outcomes of three scrutiny referrals instigated in 2019/2020.

On [21 May 2020](#), following a referral from Banff and Buchan Area Committee, we considered a Stage 1 Report into Durnhythe Care Home. We were assured by the Stage 1 Report and concluded the review process on that basis.

On [2 July 2020](#) we made a scrutiny referral to Business Services Committee to conduct a Committee Review Process into Procurement Compliance. Business Services Committee accepted the referral and considered a Stage 1 Report, in respect of which they were assured. We considered the outcome of the referral, including the Stage 1 Report on [4 February 2021](#), and were also assured by the information provided. On that basis we did not progress to Stage 2 of the Committee Review Process.

On 2 July 2020 we considered the outcome of a scrutiny referral to Communities Committee in respect of Building Maintenance Year End Stock Take. The Communities Committee had considered a Stage 1 Report and was assured. We agreed with the view of the Communities Committee having considered the Stage 1 report and did not proceed to Stage 2.

On 29 October 2020 we considered the outcome of a scrutiny referral to Business Services Committee in relation to the Hard FM contract. In response to the referral, Business Services Committee had instructed a Stage 1 Report and instigated a Stage 2 workshop. Having considered the follow-up report from the workshop, Business Services Committee was assured. We agreed with that decision and did not proceed to Stage 3.

Also on [29 October 2020](#) we considered the outcome of a scrutiny referral to Business Services Committee. Business Services had considered a Stage 1 Report into the Payroll System and had received sufficient reassurance. We deferred our decision until [10 December 2020](#) in order to obtain further information, at which point we were assured by the Stage 1 Report and decided not to progress to Stage 2.

## **Internal Audit**

A key responsibility of the Committee is to ensure that the Council's Internal Audit function is properly resourced and has appropriate standing within the Council. It also reviews the activities of Internal Audit, including its annual work programme, and consideration of its annual report on the Council's internal control environment. The former Chief Internal Auditor (CIA) retired in July 2020 and an Interim Chief Internal Auditor has been in post since September 2020. Recruitment to the CIA post is underway with the post being filled on an interim basis since the retirement of the previous postholder. The Internal Audit team is a shared service with Aberdeen City Council.

Each formal meeting of the Committee receives reports from the Chief Internal Auditor. The self-evaluation exercise undertaken in 2020 identified a need to consider the information that is published with Audit Committee papers and revisions have been implemented during the year to reflect this. In conjunction with this, Officers are reviewing the processes around outstanding actions and recommendations to ensure that these are acted upon and completed as swiftly as possible, and also that any historic open actions remain relevant and appropriate.

The Committee continues to monitor the number of agreed recommendations arising from Internal Audit investigations, which services have not implemented successfully by the agreed date. The total has fluctuated across the year as new actions are added and others completed and dismissed. The Committee exercises keen scrutiny in relation to this, and to recurring breaches of the Council's Financial Regulations over the year.

Internal Audit has highlighted a range of concerns throughout the year relating to compliance with Council policies and procedures, and with regard to delays in the implementation of recommendations agreed in Internal Audit reports. The Chair and Vice-Chair of the Committee have, in turn, raised these concerns with the Chief

Executive and received assurances about the commitment of the Strategic Leadership Team to address these.

Whilst this is concerning, management responses and action have been proportionate and improvement is expected. The Committee will continue to monitor progress on this front.

## **External Audit**

The Audit Committee is responsible for managing all aspects of the Council's relationship with its external auditors, including the review of annual work programmes and strategic risk analysis. The Committee is also charged with monitoring progress of any actions agreed by the Council in response to external audit concerns and ensuring that implementation is carried out as agreed.

Audit Scotland were appointed as the Council's external auditors in [●], and report their own assessments of the Council's operations, as well as on follow-up matters arising from national work undertaken by them.

Audit Scotland representatives regularly attend Committee meetings and, in turn, consider the Committee's operation as part of their assessment of the Council's governance and scrutiny.

On [29 October 2020](#) the Committee considered Audit Scotland's comments on the audited accounts, together with a management team response to the issues raised.

## **Annual Accounts**

The Audit Committee is responsible under the Scheme of Governance to consider and approve for signature the Council's audited Annual Accounts in accordance with the statutory duties under the Local Authority Accounts (Scotland) Regulations 2014. The unaudited accounts for 2019/20 were submitted to Committee on the 2 July 2020 with the audited accounts considered by Committee on 29 October 2020.

## **Financial Information**

The Committee has responsibility for the review of financial information presented to the Council, currently this is predominately achieved through the internal audit review of budget monitoring and reporting, and through consideration of the unaudited and audited accounts and the External Audit Management Letter.

## **Risk Management**

Aberdeenshire Council has delegated authority to the Audit Committee to review, in conjunction with Council managers, the adequacy of risk assessment arrangements and procedures.

The current [Risk Management and Business Continuity Strategy](#) was agreed in 2017 and has provided a robust framework and structure for the Council's response to the pandemic.

Throughout the course of the pandemic, Services have continued to manage their risks using the current Risk Management process. Services have continued to update and refresh Operational Risk Registers and Directorate Management Teams have continued to maintain Directorate Risk Registers and have full ownership, oversight and management of risks of operational significance. Any risks which require strategic direction have continued to be reported to Strategic Leadership Team.

Since the inception of the new Risk and Resilience Team in January 2020 a full review of all areas of the remit, which covers Risk Management, Business Continuity, Emergency Planning, Emergency Response, Resilience, Serious Organised Crime, Counterterrorism, EU Exit and Public Safety, was undertaken.

A full Risk Management review is ongoing and an improvement plan is currently being consulted with each Directorate. The Risk Management review has taken into account compliance with ISO Standards, best practice guidance and is looking at strategy, framework, policies, procedures, processes, assurance, accountability, risk appetite and risk registers. The final draft Risk Management Strategy & Framework is timetabled for presentation at Audit Committee on 16 September 2021.

The Committee is looking forward to working with the Risk & Resilience team and hearing from them more in the coming year.

In our regulatory capacity, we have considered the [Data Protection Officer Annual Report](#), the [Annual Complaints Report for the Scottish Public Services Ombudsman](#) and the [Register of Breaches of Financial Regulations](#).

### **Training and self-assessment**

The Committee has continued to build on its commitment to self-improvement and performance monitoring and Councillors continue to develop and apply their skills and approaches needed to fulfil the Committee's remit.

Following feedback from Internal and External Audit, the Committee undertook a self-evaluation over summer 2020 into the effectiveness of our structure, function and role. The results were considered by Committee on [29 October 2020](#) and a follow-up workshop was held on 7 December 2020. The workshop identified a number of actions which were considered and approved by Committee on [4 February 2021](#) and are being actively progressed by Officers and Members with a view to improving our efficiency and effectiveness.

One of the actions identified from the self-evaluation process was the development of tailored and informed training for the Committee from both internal and external trainers. Whilst the Committee had been active in seeking out training and development opportunities to enable it to carry out the particular functions expected of it, it was felt that a formal training structure and programme was required in order to best equip Members to perform the Audit role. A report will be considered by the Committee at its meeting in July on a formal programme of training for 2021/2022 and plans for future sessions, which has been informed both by the workshops held with members and a survey on training needs. In addition, workshops and briefings will be

arranged throughout the year where a particular need is identified in the course of the Committee's activity.

### **Looking forward**

Since the end of March, the work of the Committee has continued.

May and June have seen attendance of the Chair and Vice Chair of Audit Committee at all our Policy Committees in what we hope is going to be the start of more formal, and informal, working relationships to improve scrutiny and the efficiency and effectiveness of us all as a collective. Initial discussions have been very positive with offers of further discussions around areas of common interest, particularly outstanding audit recommendations.

We've also seen the reviewed approach to the preparation of the Annual Governance Statement being implemented, seeking the input of Policy Committees into providing their assurance that the Council has had adequate systems of control in place during the year.

The Committee continues to take a keen interest in monitoring the progress of our improvement actions and is pleased at the added scrutiny now being undertaken.

We've considered the first Annual Report from the Risk & Resilience team and look forward to more regular contributions at Committee.

As we move towards the next Council term, there will be increased focus on the development of an induction programme for Members of the Audit Committee. Our reflections on our own experience will be key in ensuring that training materials are targeted, focused and provide the necessary foundations to allow new Members to perform effectively.