

## RISK AND AUDIT SCRUTINY COMMITTEE

Minutes of meeting held via Confero and in Committee Room 1, Council Offices, Almada Street, Hamilton on 31 October 2023

### Chair:

Councillor Elaine McDougall

### Councillors Present:

Councillor Colin Dewar (*substitute for Councillor Mary Donnelly*), Councillor Alistair Fulton, Councillor Ross Gowland, Councillor Cal Johnston-Dempsey, Councillor Gavin Keatt (*substitute for Councillor Mathew Buchanan*), Councillor Susan Kerr, Councillor Richard Lockhart

### Councillors' Apologies:

Councillor Mathew Buchanan, Councillor Mary Donnelly, Councillor Celine Handibode

### Councillor Also Present:

Councillor Joe Fagan (for items 4 and 5)

### Attending:

#### Chief Executive's Service

C Sneddon, Chief Executive (for items 4 and 5)

#### Finance and Corporate Resources

P Manning, Executive Director; Y Douglas, Audit and Compliance Manager; S Dunsmore, Insurance and Risk Adviser; E-A McGonigle, Administration Officer; A Norris, Administration Assistant; N Reid, Research and Improvement Manager; J Taylor, Head of Finance (Strategy)

### Also Attending:

#### Audit Scotland

J Boyd and M Ferris, External Auditors

#### East Lothian Council

D Stainbank, Service Manager – Internal Audit

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## 1 Declaration of Interests

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No interests were declared.

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## 2 Minutes of Previous Meeting

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The minutes of the meeting of the Risk and Audit Scrutiny Committee held on 22 August 2023 were submitted for approval as a correct record.

**The Committee decided:** that the minutes be approved as a correct record.

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## 3 Leadership of the Development of New Local Strategic Priorities: Best Value Thematic Work in South Lanarkshire Council 2022/2023

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A report dated October 2023 by Audit Scotland, the Council's external auditors was submitted entitled South Lanarkshire Council Leadership of the Development of New Local Strategic Priorities: Best Value Thematic Work in South Lanarkshire Council 2022/2023.

The Accounts Commission had noted that councils were operating in a complex and increasingly volatile, unprecedented and unpredictable environment. Strong leadership from councils was needed now more than ever, with new and returning councillors able and willing to make difficult decisions about where and how to spend highly pressurised resources.

This report concluded on the effectiveness of the Council's leadership of the development of the Council's strategic priorities, following the local government elections in May 2022. The coverage of the work was in line with the expectations for the Council's arrangements for the 7 Best Value themes in the Local Government in Scotland Act 2003: Best Value Statutory Guidance.

The Audit Director, Audit Scotland, highlighted the following sections of the report:-

- ◆ key messages
- ◆ scope of the audit
- ◆ Council visions and priorities
- ◆ citizen and community engagement
- ◆ reducing inequalities and tackling climate change
- ◆ alignment of delivery plans
- ◆ leadership

The report detailed the following audit recommendations:-

- ◆ the Council should continue its work to embed its Fairer Scotland duties by completing and referencing Fairer Scotland assessments in council papers, strategies and plans. It should also check that all assessments were listed online
- ◆ officers should continue to engage with elected members to support their training and development requirements, including specific training to build confidence and allow scrutiny

An improvement action plan, attached as Appendix 1 to the report, set out those audit recommendations, and the Council's planned response which included responsible officers and dates for implementation.

Progress against Best Value improvement recommendations from the 2019 Best Value Assurance Report (BVAR) was detailed at Appendix 2 to the report and those had now been addressed.

The Chair, on behalf of the Committee, thanked the Audit Scotland team for the comprehensive work that had been undertaken to prepare the report.

**The Committee decided:** that the report be noted.

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#### **4a External Auditors' Annual Report to South Lanarkshire Council 2022/2023**

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The following documents were submitted by Audit Scotland, the Council's external auditors:-

- ◆ letter and appendices relating to the 2022/2023 Annual Audit report on South Lanarkshire Council
- ◆ 2022/2023 South Lanarkshire Council proposed Annual Audit report to members of the Council and the Controller of Audit

The Audit Director, Audit Scotland, spoke on the Annual Audit report and highlighted the following:-

- ◆ the audit of the 2022/2023 Annual Accounts
- ◆ financial management
- ◆ financial sustainability
- ◆ best value
- ◆ vision, leadership and governance
- ◆ use of resources to improve outcomes
- ◆ key messages
- ◆ significant findings and key audit matters:-
  - ◆ job evaluation: back pay for home carers
  - ◆ pension ceiling asset
- ◆ significant risks of material misstatement in the annual accounts identified during planning of the audit:-
  - ◆ risk of material misstatement due to fraud caused by management override of controls
  - ◆ estimation in the valuation of land and buildings
- ◆ 2022/2023 action plan on recommendations for improvement
- ◆ summary of corrected misstatements

One adjusted difference had not been included at the time of writing the proposed 2022/2023 Annual Audit report. This was in relation to unfunded pension benefits, which were historic pension obligations that were not offset through pension scheme assets. This was included in the Audited Annual Accounts 2022/2023 which had been presented to members and would be reflected in the final version of the 2022/2023 Annual Audit report. A verbal update was provided on some further minor changes that would be included in the final version of the Annual Audit report.

The external auditors' opinion on the Council's Annual Accounts 2022/2023 and those of the 3 charities administered by the Council was unmodified, that is, the financial statements and related reports were free from material misstatement.

Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report was required for the statement of accounts of each registered charity where members of the Council were sole trustees and this was irrespective of the size of the charity. The Council had made good progress in reducing or removing the number of charitable trusts where it was the sole trustee.

The Audit Director, Audit Scotland extended thanks to the Executive Director (Finance and Corporate Resources), the Head of Finance (Strategy) and the wider team for their help and support during the course of the audit.

Officers responded to a member's questions on various aspects of the report.

**The Committee decided:** that the report be noted.

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#### **4b External Auditors' Annual Report to South Lanarkshire Council 2022/2023: South Lanarkshire Council Charitable Trusts**

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Summary letters, proposed independent auditor's reports and letters of representation (ISA 580) were submitted by Audit Scotland, the Council's external auditors for:-

- ◆ South Lanarkshire Council Educational Trust
- ◆ South Lanarkshire Council Charitable Trust
- ◆ East Kilbride Information Technology Centre Trust

The Senior Auditor, Audit Scotland advised that there were no unadjusted misstatements to be corrected for the 3 charities administered by the Council and an unqualified audit opinion was expressed for all.

**The Committee decided:** that the report be noted.

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#### **5 Audited Annual Accounts 2022/2023**

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A report dated 12 October 2023 by the Executive Director (Finance and Corporate Resources) was submitted on the:-

- ◆ Council's Certified Annual Accounts and Charitable Trusts' Accounts for 2022/2023, which had received a clean audit certificate from the Council's external auditors, Audit Scotland
- ◆ requirement to approve the Annual Accounts 2023/2023 for signature in terms of both the Council's accounts and related charitable trusts

The accounts covered the Council as well as 3 Charitable Trusts managed by the Council, namely South Lanarkshire Council Educational Trust, South Lanarkshire Council Charitable Trust and the East Kilbride Information Technology Trust. A clean audit certificate had been received for each with no qualifications on the Council's accounts. An agreed action plan had been included in the external auditor's report and officers would work to ensure those were implemented in 2022/2023.

The Annual Accounts would be advertised as being available for public inspection on the Council's website and on request from Finance Services.

The Chief Executive commended the professional approach and collaborative working from the Audit Scotland team. There was cognisance of the current challenges of audit work around the UK, particularly around timescales. Appreciation was extended to the Internal Audit team and to colleagues in Finance and Corporate Resources for the exemplary financial stewardship. The Chair, on behalf of the Committee, echoed those remarks.

**The Committee decided:**

- (1) that it be noted that the South Lanarkshire Council Annual Accounts 2022/2023 and the Charitable Trusts' Accounts had each received a clean audit certificate from the Council's external auditors, Audit Scotland;
- (2) that the audited South Lanarkshire Council Accounts 2022/2023 and the Charitable Trusts' Accounts be approved for signature;
- (3) that it be noted that the external auditor's report would be referred to a future meeting of South Lanarkshire Council for information; and

- (4) that it be noted that the Audited Accounts 2022/2023 would be available on the Council's website, as detailed at section 3.7 of the report.

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## **6 2022/2023 External Quality Assessment of Internal Audit Service**

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A report dated 13 October 2023 by the Executive Director (Finance and Corporate Resources) was submitted on the 2022/2023 External Quality Assessment of South Lanarkshire Council's Internal Audit Service.

The Internal Audit Service was delivered within the context of the Public Sector Internal Audit Standards (PSIAS). Those standards required that a Quality Assurance and Improvement Programme (QAIP) was developed to provide assurance that Internal Audit activity:-

- ◆ operated in an efficient and effective manner
- ◆ was perceived to be adding value and improving operations
- ◆ was conducted in accordance with an Internal Audit Charter

The Programme included periodic and ongoing internal assessments as well as an external review once in every 5 year period. The Council's external review had been undertaken by East Lothian Council's Internal Audit Service Manager. The findings from the external review, which had been issued in October 2023, were detailed in the appendix to the report.

The overall assessment was that South Lanarkshire Council's Internal Audit function "fully conformed" with 7 standards and "generally conformed" with the remaining 7 areas. This was considered to be a positive outcome, with no significant areas of improvement identified.

The main areas for improvement were detailed in the Action Plan included in the appendix to the report and were summarised as follows:-

- ◆ the Chief Audit Executive (Audit and Compliance Manager) should report in their own name to the Risk and Audit Scrutiny Committee, enhancing the clarity of independence
- ◆ job profiles/descriptions should be refreshed for all Internal Audit staff to provide a clear expectation of the requirements of each role
- ◆ consideration should be given to developing a formal questionnaire or feedback mechanism from clients to obtain quantifiable client feedback
- ◆ the Audit and Compliance Manager should complete the assurance mapping exercise that was currently underway and report the findings to the Committee

Further updates would be provided to the Committee to confirm that the actions had been implemented and the recommendations were anticipated to be delivered by March 2024.

**The Committee decided:** that the contents of the report be noted.

*[Reference: Minutes of Risk and Audit Scrutiny Forum of 21 March 2018 (Paragraph 6) and Minutes of 9 September 2022 (Paragraph 4)]*

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## **7 Internal Audit Activity as at 13 October 2023**

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A report dated 13 October 2023 by the Executive Director (Finance and Corporate Resources) was submitted on work completed by Internal Audit during the period 5 August to 13 October 2023.

Findings from internal audit assignments were reported to this Committee throughout the year and the last progress report was considered by this Committee on 22 August 2023. Key performance indicators, which reflected quality, on time and within budget as at 30 September 2023, were summarised in Appendix 1 to the report.

A list of all assignments completed in the period 5 August to 13 October 2023, together with a summary of overall assurances for each area of work, was provided in Appendix 2 to the report. All of those assignments related to South Lanarkshire Leisure and Culture (SLLC) and were reported to its Audit Committee.

As at 30 September 2023, 9% of the 2023/2024 Audit Plan was completed to draft report stage and a further 26 assignments were in progress at that date. In the reporting period, all elements of the Audit Plan had been progressed with a specific focus on the National Fraud Initiative (NFI), investigative activities and external client audit plans.

Updates were also provided on:-

- ◆ the contributions Internal Audit had made to:-
  - ◆ the implementation of Oracle Fusion - the cloud based human resources and financial management system in the Council
  - ◆ a review of controls around unmasking of bank account details
- ◆ the Public Sector Internal Audit Standards (PSIAS) external review which had been concluded
- ◆ progress against the Audit Strategy which was a requirement of the PSIAS. Delivery of the 2023/2024 Strategy had been evidenced by the completion of the Internal Audit Plan in year, and monitored during the year by performance indicators which were regularly reported to the Committee

**The Committee decided:** that the report be noted.

*[Reference: Minutes of 22 August 2023 (Paragraph 3)]*

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## **8 Year End Risk Management Report (2022/2023) and Review of Council's Top Risks (2023/2024)**

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A report dated 3 October 2023 by the Executive Director (Finance and Corporate Resources) was submitted providing an update on:-

- ◆ progress with risk management activity undertaken during 2022/2023
- ◆ the Council's top risk register following the review and consultation process

Annual reviews of the Council's top risks were undertaken, with the findings of the last review reported to the Committee on 25 October 2022. This year's full review commenced in April 2023 and the consultation had sought views from Heads of Service, elected members and trades unions on new areas of risk.

Risk Sponsors were required on an annual basis to assess their Resource's compliance with the Risk Management Strategy and provide supporting evidence. The information for 2022/2023 was summarised in the end of year compliance statement, which was detailed in Appendix 1 to the report. Resources continued to demonstrate full compliance with the Strategy, having scored 45 out of 45.

The annual review, in line with previous years, did not result in wholesale changes to the top risk register. The risks from the previous year's review, as detailed in the report to this Committee on 25 October 2022, were still deemed to be valid.

Details were given on the main changes to the Council's top risk register in section 6.2 of the report and, taking account of the revision of risk scores, the top risk register for 2023/2024 was provided in Appendix 2 to the report. The main changes to the risk profile from the previous year were:-

- ◆ 2 new very high risks had been added to the top risk register:-
  - ◆ failure to comply with or meet the expected standards, scrutiny levels or improvement as identified by regulatory bodies
  - ◆ changes in response to automatic fire alarms by the Scottish Fire and Rescue Service (SFRS) within the Council's non-domestic estate
- ◆ 3 new high risks had been added to the top risk register:-
  - ◆ failure to deliver the outcomes of the Economic Strategy
  - ◆ third and private sector market capacity
  - ◆ inability to maintain infrastructure, assets and properties in a safe and well-maintained condition due to budget constraints and failure to achieve objectives of asset and property reviews
- ◆ 3 risks had moved from being high to very high:-
  - ◆ the Council fails to meet statutory and legislative duties in respect of public protection
  - ◆ the Council does not fully deliver the strategic outcomes required of the Integration Joint Board (IJB) as outlined in its Strategic Commissioning Plan
  - ◆ inability of the Council to effectively balance the provision of accommodation and support to households who arrived in South Lanarkshire as part of refugee resettlement and the asylum seeker dispersal programmes, including those for unaccompanied children, whilst also meeting demands from other high need groups including homeless household
- ◆ one risk had moved from being very high to high:-
  - ◆ the Council is materially affected by the implications arising from the National Care Service Bill

The Council's top risk register was monitored on an ongoing basis and updates were reported annually to this Committee. Risk scores and rankings would be amended if new information came to light that allowed the position to be reassessed.

Horizon scanning was used to identify several areas that could pose potential threats and risks or emerging issues and opportunities that could affect the Council. Areas identified had included the COVID-19 National Inquiry, Martyn's Law and Health and Care (Staffing) Act 2019 (effective from 1 April 2024) and those would continue to be monitored.

A model had been developed by the Institute of Internal Auditors which aimed to provide assurance of the adequacy of control measures that were in place for strategic risks. The model aimed to ensure that top risks were mitigated through 'three lines of defence' which were:-

- ◆ Line 1 – control by operational management
- ◆ Line 2 – control and compliance by functions that had an oversight role (for example Risk Management)
- ◆ Line 3 – independent assurance

A process to categorise controls that mitigated top risks using the Three Lines model had taken place throughout 2022/2023 and would be concluded in 2023/2024.

The Insurance and Risk Adviser responded to members' questions on various aspects of the report.

**The Committee decided:**

- (1) that Resource compliance with the requirements of the Risk Management Strategy be noted;
- (2) that the progress being made in delivering actions to mitigate top Council risks be noted; and
- (3) that the updated Council's top risks be noted.

*[Reference: Minutes of 25 October 2022 (Paragraph 4)]*

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## **9 Audit Scotland: Local Government in Scotland Overview 2023**

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A report dated 15 September 2023 by the Executive Director (Finance and Corporate Resources) was submitted providing a summary of the information contained within the Audit Scotland Report entitled 'Local Government in Scotland: Overview 2023' which had been published in May 2023.

Audit Scotland published an annual overview report on behalf of the Accounts Commission, covering key areas of current and future activity relative to local government and providing an opinion on how those were, or should be, managed.

The Overview 2023 report was the third and final in a series of reports which reflected on the impact of the COVID-19 pandemic. The 2021 and 2022 reports considered the initial response phase of the pandemic and the second year of the pandemic respectively. The 2023 report built on the previous reports and examined the following:-

- ◆ how had the pandemic affected councils and their performance
- ◆ what were the current and future challenges facing local government
- ◆ how well placed were councils to deal with the current and future challenges

The Overview 2023 report, which could be accessed on the Audit Scotland website, had been structured around the following 3 main topics:-

- ◆ the impact of the pandemic on councils' performance
- ◆ what were the current challenges facing local government
- ◆ how were councils responding

A number of key messages were detailed in the Overview 2023 report and summarised in the report to the Committee. Audit Scotland's recommendations were detailed in the report, along with an assessment of the Council's position and any action considered necessary.

The Accounts Commission had prepared a checklist of questions for elected members' consideration to accompany the Overview 2023 report and the checklist, including narrative responses from a South Lanarkshire Council perspective, was attached as Appendix 1 to the report.

The Research and Improvement Manager responded to a member's question in relation to workforce challenges.

**The Committee decided:** that the key messages and recommendations contained within the report be noted.

*[Reference: Minutes of 6 December 2022 (Paragraph 6)]*



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## **10 Forward Programme for Future Meetings**

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A report dated 6 October 2023 by the Executive Director (Finance and Corporate Resources) was submitted on the outline forward programme for the meetings of the Risk and Audit Scrutiny Committee to 19 November 2024.

As part of future arrangements, members were invited to suggest topics for inclusion in the Committee's forward programme.

**The Committee decided:** that the outline forward programme for the meetings of the Risk and Audit Scrutiny Committee to 19 November 2024 be noted.

*[Reference: Minutes of 22 August 2023 (Paragraph 6)]*

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## **11 Urgent Business**

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There were no items of urgent business.