

## **RISK AND AUDIT SCRUTINY COMMITTEE**

Minutes of special meeting held via Confero and in the Council Chamber, Council Offices, Almada Street, Hamilton on 25 October 2022

### **Chair:**

Councillor Elaine McDougall

### **Councillors Present:**

Councillor Mary Donnelly (Depute), Councillor Alistair Fulton, Councillor Ross Gowland, Councillor Cal Johnston-Dempsey, Councillor Susan Kerr, Councillor Richard Lockhart

### **Councillors' Apologies:**

Councillor Mathew Buchanan, Councillor Celine Handibode

### **Councillor Also Present:**

Councillor Joe Fagan

### **Attending:**

#### **Chief Executive's Service**

C Sneddon, Chief Executive

#### **Finance and Corporate Resources**

Y Douglas, Audit and Compliance Manager; S Dunsmore, Insurance and Risk Manager; G McCann, Head of Administration and Legal Services; E A McGonigle, Administration Officer; A Norris, Administration Assistant; J Taylor, Head of Finance (Strategy)

### **Also Attending:**

#### **Audit Scotland**

A Kerr and F Mitchell-Knight, External Auditors

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## **1 Declaration of Interests**

No interests were declared.

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## **2 External Auditors' Annual Report to South Lanarkshire Council 2021/2022**

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

- ◆ letter and appendices relating to the 2021/2022 Annual Audit report on South Lanarkshire Council and registered charities administered by South Lanarkshire Council
- ◆ 2021/2022 South Lanarkshire Council proposed Annual Audit report to members of the Council and the Controller of Audit

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

- ◆ the audit of the 2021/2022 Annual Accounts
- ◆ financial management
- ◆ financial sustainability
- ◆ governance and transparency
- ◆ best value
- ◆ key messages
- ◆ 2021/2022 action plan on recommendations for improvement

- ◆ significant audit risks identified during planning of the audit
- ◆ summary of national performance reports 2021/2022

The Senior Auditor also referred to one significant finding from the audit of the Annual Accounts in relation to valuation of Council dwellings. Other matters identified from the work on the Annual Accounts included:-

- ◆ the accounting treatment of COVID-19 funding
- ◆ asset misclassification

The external auditors' opinion on the Council's Annual Accounts 2021/2022 and those of the 3 charities administered by the Council was unqualified.

Audit Scotland would remain as the Council's external auditor for the period 2022/2023 to 2026/2027, however, a new audit team would be appointed. The existing audit team would work closely with the new team to ensure a well-managed transition.

The Senior Auditor, Audit Scotland extended thanks to the Executive Director (Finance and Corporate Resources), the Head of Finance (Strategy) and the wider team for their collaborative working and positive engagement over the term of appointment.

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

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### **3 Audited Annual Accounts 2021/2022**

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A report dated 10 October 2022 by the Executive Director (Finance and Corporate Resources) was submitted on the:-

- ◆ Council's Certified Annual Accounts and Charitable Trusts' Accounts for 2021/2022, which had received a clean audit certificate from the Council's external auditors, Audit Scotland
- ◆ requirement to approve the Annual Accounts 2021/2022 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. He reflected on the challenges that the Council had faced in 2021/2022 and, despite being a year of significant transformational change, the Council had maintained a high level of performance. The Chief Executive acknowledged that the future would be no less challenging for local government particularly in relation to:-

- ◆ legislative changes arising from the National Care Service (Scotland) Bill which was currently going through the parliamentary process
- ◆ ongoing financial challenges and reduction in resources

The Chair, on behalf of the Committee, thanked the Head of Finance (Strategy) and team for their extensive work involved in preparing the Annual Accounts. Thanks were also extended to the Audit Scotland team.

**The Committee decided:**

- (1) that it be noted that the South Lanarkshire Council Annual Accounts 2021/2022 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 2021/2022 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 noting; and
- (4) that it be noted that the Audited Accounts 2021/2022 would be available on the Council's website, as detailed at section 3.5 of the report.

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#### **4 Year End Risk Management Report (2021/2022) and Review of Council's Top Risks (2022/2023)**

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A report dated 5 October 2022 by the Executive Director (Finance and Corporate Resources) was submitted providing an update on:-

- ◆ progress with risk management activity undertaken during 2021/2022
- ◆ 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 15 September 2021. This year's full review commenced in April 2022 and the consultation had sought views from Heads of Service, elected members and trades unions on new areas of risk. A session had also been held with members of the Committee on 25 August 2022 which provided information on the Council's risk management process, the top risk review, and allowed members to submit areas for consideration as part of the top risk review.

An informal benchmarking exercise had taken place to review the Council's top risks against the risk registers of 2 local authorities (North Lanarkshire Council and Renfrewshire Council). This review established that the Council's current top risk register was, in the main, reflective of the risks faced by the other 2 authorities.

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 2021/2022 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 5x5 risk scoring matrix was attached as Appendix 2 to the report.

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 15 September 2021, were still deemed to be valid.

Details were given on the main changes to the Council's top risk register in section 6.3 of the report and, taking account of the revision of risk scores, the top risk register for 2022/2023 was provided in Appendix 3 to the report. The main changes to the risk profile from the previous year were:-

- ◆ 3 new very high risks had been added to the top risk register:-
  - ◆ the Council was unable to support households most impacted by the cost of living crisis
  - ◆ the Council failed to deliver the outcomes of the Community Wealth Building Strategy
  - ◆ disruption to Council services that resulted from industrial action
- ◆ 2 new high risks had been added to the top risk register:-
  - ◆ failure in achieving the outcomes of the Council Plan
  - ◆ inability of the Council to effectively accommodate and support households who arrived in South Lanarkshire as part of refugee resettlement and asylum seeker dispersal programmes
- ◆ the high score risk 'EU Exit' had been removed from the top risk register
- ◆ the risk score for the pandemic risk had been changed from very high to high

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. The top risk register for 2022/2023 was attached as Appendix 3 to the report.

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 Ash Dieback Disease and the COVID-19 National Inquiry 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

Initial work had been completed by Internal Audit last year to group existing controls as per the Three Lines model for individual top risks. Further work would be conducted this year to revisit this for each of the updated risk cards.

**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 15 September 2021 (Paragraph 4)]*

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## **5 Urgent Business**

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There were no items of urgent business.