

Audit Committee**Remote – MS Teams****Wednesday 15 July 2020 at 10am****Present:**

A Duncan	J Fraser
C Hughson	S Leask
M Lyall	A Manson
R McGregor	I Scott
C Smith	

Apologies:

None

In attendance (Officers):

C Ferguson, Director of Corporate Services
J Manson, Executive Manager – Finance
J Riise, Executive Manager – Governance and Law
D Black, Chief Internal Auditor
A Cogle, Team Leader – Administration
K Collins, Financial Accountant
E Cripps, Internal Auditor
C Anderson, Communications Officer
L Adamson, Committee Officer

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None.

Minutes

The Committee confirmed the minutes of the meeting held on 9 March 2020, on the motion of Mrs Hughson, seconded by Mr C Smith.

(There was an adjournment to rectify IT issues for those attending via the Town Hall).

At the request of the Chair, the Chief Internal Auditor advised the Committee on the change in order of agenda items for this meeting.

The Committee considered a report by the Chief Internal Auditor (CRP-17-20-F) that provided Members with an overview of the work undertaken by Internal Audit during the period from 1 November 2019 and 3 July 2020 as part of the agreed 2019/20 Internal Audit Plan.

In introducing the report, the Chief Internal Auditor referred to the summary of the findings of the four audits completed as set out in Section 4, and advised that the full report from each audit had been included as appendices. He advised that the outcome of the audits undertaken were that a reasonable level of assurance can be placed on the control environment.

Reference was made to the Cyber Security Internal Audit Report Action Plan, where further detail was sought on the observation/risk that “there is currently no policy/procedure in place that applies to end users, to clearly outline the cyber related threats they may encounter and the action to be taken in response”. The Chief Internal Auditor said that while controls were in place by way of the IT Security Policy and reminders are sent to staff, he advised on the recommendation from the audit that management create a clear process and documentation for all staff who use IT, on IT security and on how to deal with any suspicious activity. The Director of Corporate Services also advised on the importance to achieve the PSN Rating and Certification, and she added that external security had recently given the Council a clean bill of health with no recommendations.

In response to a question, the Chief Internal Auditor explained that a Cyber Security Incident Response Plan has been created, however the Plan should be tested to assist management identify improvements or weaknesses in the arrangements, and to ascertain how well the Plan works in practise.

Reference was made to Section 3.3. of the main findings section of the Cyber Security Audit, where it was noted that at the time of audit testing, only three employees had completed the information security course. In response to a question, the Director of Corporate Services said that as she did not have the information to hand, she would provide Members of the Committee with detail on the number of staff who have now completed the course and on how the course has been actively promoted to staff.

Decision:

The Audit Committee:

- NOTED the content of the report;
- NOTED that the report format includes appendices to the full audit reports for further information;
- COMMENTED on the outcome on the findings of the audit work completed; and
- ADVISED the Director of Corporate Services of their views and any recommendations for onward reporting to the Council.

06/20

Internal Audit COVID-19 Response

The Committee noted a report by the Chief Internal Auditor (CRP-16-20-F) that summarised the response of the Internal Audit function and the impact of COVID-19 on the Internal Audit Plan, fieldwork, reporting and future plans.

The Chief Internal Auditor summarised the main terms of the report.

In response to a question, the Chief Internal Auditor said that the impact of COVID-19 should not result in a major change to the agreed Audit Plan, however there was the potential that some of the planned audits would be delayed until next year to allow time for new higher priority assurance work in response to COVID-19. He also referred to the need to be responsive to new and emerging risks going forward. Members were advised that an updated Audit Plan would be presented at the next Committee meeting.

During debate, comment was made that the COVID-19 Response report was deemed to be an additional live document, where the Committee would receive updates in the Audit Plans going forward. The Chair referred to the additional pressure on staff in managing the impacts of COVID-19, and he commended staff in that regard.

Decision:

The Audit Committee NOTED the update provided.

07/20

Internal Audit Annual Report 2019/20

The Committee considered a report by the Chief Internal Auditor (CRP-19-20-F) that provided Members with an overview of the work of Internal Audit for the year ended 31 March 2020.

In introducing the Internal Audit Annual report, the Chief Internal Auditor referred to Section 2, which set out the resources available to complete the Audit work for the year. He advised on the reduction of one full time equivalent member of staff in the team that has impacted on the ability to complete certain areas of the Audit Plan. He said that while a number of audits have been deferred into the next financial year, the Audit Plan has been sufficiently completed to provide the audit opinion. The Chief Internal Auditor advised on the audit opinion, that the Council has a system of internal control designed to manage risk to a reasonable level.

In response to a question regarding the vacancy within the Audit Team, the Director of Corporate Services advised from her discussions with the Chief Internal Auditor that it may not be a case of replacing like with like, and that a number of other options were being considered. In that regard, she advised that there was provision in the contract with Audit Glasgow to supplement resources within the Internal Audit team in Shetland. The Director of Corporate Service advised on her intention to present proposals to Committee in the near future.

Referring to the audit opinion arising from the audit where the control environment had been assessed as unsatisfactory, namely the arrangements for EU funding compliance, comment was made on the very onerous and timely process involved, and it was questioned whether the Council had the skills and knowledge in place to ensure EU funding was kept on track. The Chief Internal Auditor acknowledged the incredibly stringent rules and regulations associated with EU funding, and advised that the focus needs to be on mitigation of risk on the claims submitted and the audit trail. In that regard, he advised on a piece of work undertaken by Glasgow City Council to look at mitigating risks, which he said would be shared with management, to be replicated in Shetland Islands Council.

In response to a question regarding the audit opinion given, the Chief Internal Auditor explained that the highest audit rating, which can be difficult to achieve, would be 'satisfactory', and the next best would be 'reasonable'. He advised that while there are some issues for management to address within the Council, there is reasonable assurance on the control environment. In that regard, he concluded that Members should be happy with the 'reasonable' audit opinion received.

Reference was made to Section 2.3.1 of the Annual Audit Report, which informed that Internal Audit had experienced inadequate interaction from certain areas of the Council, which has impacted on the completion of some of the audits in the Audit Plan. Further information was sought on the reasons for that lack of interaction. The Chief Internal Auditor advised that he was not aware of the reason, but said that the issue mainly pertained to one service area of the Council. He advised however that he would be discussing the matter with the Chief Executive to seek a resolution going forward.

During the discussion, it was questioned whether the Director of Corporate Services could provide a report to Committee to inform on the underlying reason for the inadequate interaction from the service area which has impacted on the Audit Plan, and on the management proposals to mitigate the situation. In responding, the Director of Corporate Services said that she would be hesitant to bring a full report to Committee, but suggested that following discussions between the Chief Internal Auditor and the Chief Executive, feedback would be provided to Members of the Committee as early as possible.

During debate, Mr C Smith commented that on his first read of the Internal Audit Annual Report he did have some concerns, however he had now received clarity from the Chief Internal Auditor in terms of the audit opinion and from the Director of Corporate Services on staff resources. He also referred to the additional pressure on staff over the last few months. Mr C Smith said that he now had every confidence in moving forward that matters would be rectified. In that regard, he said that the Committee would be provided with an update following the discussion between the Chief Internal Auditor and Chief Executive on the ongoing issue with the particular service area. Mr C Smith moved that the Committee approve the recommendation in the report. Mr McGregor seconded.

Mr Fraser said that while taking cognisance of COVID-19, and the impact on staffing and their workload, he said that the Chief Internal Auditor had been unable to clarify, to his satisfaction, the terms of the inadequate interaction from the Service area. Mr Fraser moved as an amendment, that the Audit Committee defer approval of the Annual Governance Statement (AGS) until Members are in receipt of clarification on the underlying cause of the inadequate interaction from the Service area, and on the proposals to overcome the issue. Mr Leask seconded.

In referring to the amendment as proposed, the Chair invited officers to provide advice on the impact of its terms. The Director of Corporate Services advised the Committee on the importance for Members to fully understand the implications of such a delay to approve the AGS, and in that regard she suggested that the Council's Monitoring Officer and S95 Officer provide their professional opinion to Committee. The Executive Manager – Governance and Law explained the issue with the compromise created to the External Auditor in their review of the final accounts to proceed on the basis of an unsigned AGS, and he urged the mover of the amendment to establish if an alternative means to seek assurance on the concern raised could be found. The Executive Manager – Finance advised that the

Committee were being asked to approve the draft AGS and unaudited draft accounts at this time, and therefore changes could be made before the final accounts would be signed off in September 2020. He went on to advise that if the draft AGS is not signed off today, the AGS could not be submitted to the external auditors and that would result in a further delay to the process. He clarified that the audit process cannot start until the External Auditor is in receipt of a draft set out accounts.

In referring to the advice given, a Member questioned what alternative assurance could be given to the Committee that the area of concern can be addressed. The Director of Corporate Services reiterated that she could not commit to a full report to Committee, advising that there could be personal issues involved and the need for confidentiality which could not be disclosed. She gave assurance that there would be a report back in a timeframe, following the discussion between the Chief Internal Auditor and the Chief Executive, however at this time no commitment could be given on timescale. The Director of Corporate Services said that while the issue of inadequate interaction from a Service area was reported in the audit report, reasonable assurance had been given, which she said was a good audit rating. She added that there was also a significant amount of work done during the year to prepare a draft AGS to move to the next stage in the process. The Chief Internal Auditor referred to the point made by the Executive Manager – Finance, and assured the Committee that there would be an opportunity to address this matter before approval of the final accounts. The Chief Internal Auditor went on to explain that the matter had been included within the audit report, as it had resulted in additional work and a number of audits delayed into the next financial year, which he said was less than ideal. He stated however that the overall audit opinion was one of reasonable assurance.

The Executive Manager – Finance advised the Committee that the discussion on the draft AGS was however for the next item on the agenda. In terms of the Audit Report, he said that the impact of Coronavirus will be picked up in the renewed Action Plan, and he referred again to the audit opinion given that there is reasonable assurance on the control environment in place.

Mr Fraser commented on his confusion regarding the agenda item that was being discussed, and advised that his amendment was withdrawn. This received the support of his seconder.

Mrs Lyall moved as an amendment, that the Committee approve the recommendations in the report, with an addition to the final recommendation, namely, “to provide a briefing note to Members of the Committee on the reasons for the lack of interaction from one area of management with Internal Audit that has impacted on the planned Internal Audit work, prior to approval of the final accounts.” Mr McGregor seconded.

It was however noted that Mr McGregor had previously seconded the earlier motion. Mr McGregor confirmed that he wished to withdraw his seconding of the earlier motion, and instead to second the motion put forward by Mrs Lyall. Mr C Smith did not receive a seconder for his motion.

The Chair confirmed the only motion was that submitted by Mrs Lyall, seconded by Mr McGregor, and there being no further amendments or anyone otherwise minded, the Chair declared the motion as the finding of the meeting.

Decision:

The Audit Committee:

- NOTED the content of this report and of the Internal Audit Annual Report 2019/20 attached at Appendix 1;
- COMMENTED on the information provided therein; and
- ADVISED the Director of Corporate Services of their views and any recommendations for onward reporting to the Council, namely to provide a briefing note to Members of the Committee on the reasons for the lack of interaction from one area of management with Internal Audit that has impacted on the planned Internal Audit work, prior to approval of the final accounts.

08/20

Annual Governance Statement 2019/20

The Committee considered a report by the Executive Manager – Finance (F-031-F) that presented the Annual Governance Statement 2019/20 which will form part of the annual accounts.

The Executive Manager – Finance introduced the report, and the Annual Governance Statement (AGS) at Appendix 1. He advised on the additional information that had been included in the AGS 2019/20 compared to previous years. He referred to the response to the Coronavirus pandemic during March 2020, and confirmed the governance arrangements in place for the full year. He drew Members' attention to the opinion of the Chief Internal Auditor on the final page of the AGS, that reasonable assurance can be placed on the adequacy and effectiveness of the Council's governance and internal controls that operate across the Council throughout 2019/20.

The Executive Manager – Finance highlighted a minor typographical error in the 'Conclusion' section of the AGS, which he advised would be amended.

In referring to page 3 of the AGS, the Chair advised on his concern at the issues that had been identified by the Scottish Housing Regulator in terms of the Council being in the bottom quartile for service areas including tenant satisfaction of the quality of their home, rent arrears and non-emergency repairs, and sought assurance on what improvements had been made in these areas. He also enquired on the timescale when the Council's 2019/20 Landlord report would be published. The Executive Manager – Finance said that he would relay the matters raised to the Executive Manager – Housing, to provide a response to Members of the Committee by way of a Briefing Note.

Reference was made to the specific area of concern as reported from the audit, that "there is no formal framework to specifically mitigate the risks associated with EU funding compliance". In that regard it was questioned whether the Council could be subject to clawback, and on any other implications to the Council. The Executive Manager – Finance reported that European funding was incredibly complicated and the timeframe to retain records can be particularly lengthy. He went on to advise that there could be risk of clawback, where the Council would be required to pay back funding received should it be found that the Council has not complied with the conditions of the funding, or where the Council is unable to demonstrate compliance. The Executive Manager – Finance referred to a project where the Council has had to repay funding, and he acknowledged that projects

may be subject to clawback in the future. He reported that this issue will be closely monitored as part of the action plan and procedures will be put in place to mitigate risks. He added that as the UK has now left the EU there will be very limited opportunities to access European funding in the future, however there would be alternative domestic funding coming into play as a replacement for EU Structural funds.

Mr C Smith referred to the recommendation in the report, namely “that the Audit Committee resolve to approve the Annual Governance Statement 2019/20 that will form part of the annual accounts”, and he questioned the consequence to the Council should the Committee decide not to approve the draft AGS today. The Executive Manager – Finance advised that the ultimate consequence was that the Council would be unable to submit their draft accounts, and could not start the next stage in the process. He reported that the Council is already three weeks behind as an impact of the Coronavirus and there could be potential for further delays in that regard. He went on to advise that at this time the AGS is very much a draft statement for the draft accounts, and that between now and September, when the final accounts would be signed off, changes could be made.

During debate, Mr Fraser said that the conversation that has taken place would suggest that it was fait accompli that the Audit Committee would resolve to approve the draft AGS, and he said that it was his personal feeling that in doing so would bypass due democratic processes. He said that there was an element of ambiguity in the AGS, and in that regard he sought confirmation that there were no systemic or procedural failings. He said that depending on the outcome of the debate, he gave notice that he may put forward a motion, in the terms of the amendment, that was intimated by him during the previous agenda item.

Mr C Smith said that the question he had posed was to ascertain the consequences should the Audit Committee not approve the draft AGS, and he said that the response from the Executive Manager – Finance was quite clear in terms of the problems that would arise, and he also noted the assurance that changes can be made to the AGS between now and approval of the final accounts in September. Mr C Smith moved that the Committee approve the recommendation in the report. Mr Leask seconded. Mr Leask then questioned, that in continuing the process, whether there was some means to also address the concerns raised by Mr Fraser.

Mr Fraser said that in the spirit of trying to create an area of consensus to move forward, he would concede not to put forward an amendment, but instead he suggested an addition to the Decision Note from Committee, namely, “That the Committee expressed concern that there was an element of ambiguity in the AGS, and to seek confirmation that there were no systemic or procedural failings in terms of the interactions between the service area and the Chief Internal Auditor”. The Chair noted this comment would be included in the minute of this meeting.

During the discussion that followed, Members referred to the advice given by the Executive Manager – Finance in terms of the implications should the Committee not approve the draft AGS, and also to the assurance from management that the issue with the particular Service area would be actioned. In that regard, Mr Fraser was urged to reserve judgement on his concerns raised until such time as the final AGS is presented in September. In responding, Mr Fraser said that he had taken on board the comments made, and would not proceed with a formal amendment.

Decision:

The Audit Committee APPROVED the Annual Governance Statement 2019/20 that will form part of the annual accounts (Appendix 1).

On behalf of the Committee, the Chair thanked all involved for their hard work in preparing the papers for this meeting.

The meeting concluded at 11.50am.

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Chair