



**Financial Audit and Assurance
Committee minutes**

2019

FINANCIAL AUDIT AND ASSURANCE COMMITTEE

MEETING: 25 APRIL 2019

REPORT BY: SECRETARY TO THE COMMISSION

MINUTE OF PREVIOUS MEETING

Introduction

1. This paper provides updated information on the previous minute of the Committee.

Updated information

2. At its meeting on 7 March 2019, the Commission approved the attached minute as a correct record.

Conclusion

3. The Committee is asked to note:
- The attached minute.
 - Any other updates provided at today's meeting.

Paul Reilly
Secretary to the Commission
25 April 2019

MEETING: 25 APRIL 2019

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 21 FEBRUARY 2019

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of 102 West Port, Edinburgh on Thursday 21 February 2019, at 10.00am.

PRESENT: Pauline Weetman (Chair)
 Sheila Gunn
 Ronnie Hinds
 Tim McKay
 Sharon O'Connor
 Graham Sharp
 Geraldine Wooley

COMMISSION MEMBERS

ALSO PRESENT: Christine Lester

IN ATTENDANCE:

Paul Reilly, Secretary to the Commission
 Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV) (Item 4)
 Elaine Boyd, Associate Director, Audit Quality and Appointments (AQA) (Item 7)
 John Cornett, Audit Director, Audit Services (Item 4)
 Fiona Kordiak, Director of Audit Services (Items 9 and 10)
 Anne MacDonald, Senior Audit Manager, Audit Services (Item 4)
 Paul O'Brien, Senior Manager, Professional Support (Item 8)
 Owen Smith, Senior Manager, AQA (Item 7)

Item No Subject

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 22 November 2018
4. Current issues in councils
5. Intelligence from Ombudsman (six monthly review)
6. Risk management
7. Audit quality activity 2018/19: update
8. Loan fund repayments
9. Review of regulator/audit market study update
10. CIPFA financial management code
11. Any other business

1. Apologies for absence

It was noted that apologies for absence had been received from Andrew Burns.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 4, as a council tax payer in South Lanarkshire, in relation to references to South Lanarkshire Council, and in item 5, as Vice-Chair of the Wheatley Group, in relation to references to Glasgow City Building.
- Ronnie Hinds, in item 4, as a former Chief Executive of Fife Council, in relation to references to equal pay matters.
- Geraldine Wooley, in item 4, as a member of the Fife Valuation Appeal Committee, in relation to references to council tax and non-domestic rates.

3. Minutes of meeting of 22 November 2018

The minutes of the meeting of 22 November 2018 were noted, having previously been approved as a correct record by the Commission.

Arising therefrom:

- In relation to item 4 (current issues in councils), advice from the Controller of Audit was noted that:
 - In relation to the second bullet point, that he had referred to the new chief officer structure in North Ayrshire Council in his Annual Assurance and Risks Report considered by the Commission at its January meeting.
 - In relation to the fifth bullet point, that he had reported in the 'current issues in councils' report on the recent written ruling by the General Teaching Council for Scotland on the conduct of a former executive director of learning and leisure services of North Lanarkshire Council in relation to the false reporting of teacher numbers for 2014.
- In relation to item 5, final bullet point (Committee engagement with auditors), advice from the Secretary was noted that he was discussing with the Committee Chair how to take forward engagement with auditors, to be further discussed at its next meeting.

Action: Secretary

4. Current audit issues in councils

The Committee considered a report by the Controller of Audit on emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee noted advice from the Controller of Audit that:

- He would consider clarifying some of the wording in the 'local auditor response' column in the report.
- In response to a query from Sharon O'Connor, that risks around staff recruitment and capacity in councils continue to be a key area of monitoring for auditors.

- In response to a query from Ronnie Hinds, that matters around turnover of senior staff in integration joint boards would be part of a paper on health and social care to be considered by Commission members at their strategy seminar.
- In response to a query from Pauline Weetman, that he would clarify auditing arrangements around Shetland Leasing and Property Developments Ltd.
- In response to a query from Tim McKay, that he would provide further information on the South Lanarkshire Council transitional beds model pilot.
- In response to a query from Ronnie Hinds, that he would continue to monitor various matters around the Glasgow City Council equal pay settlement.

Actions: Director of PABV

Following discussion, the Committee:

- Noted the report.
- Agreed that the format of the report, including the additional appendices, was helpful for the Committee to develop its approach to monitoring risk, to be discussed later in the meeting.

5 Intelligence from Ombudsman (six monthly report)

The Committee considered a paper by the Secretary providing intelligence about councils from various sources including: correspondence to Audit Scotland, the Scottish Public Sector Ombudsman, the Commissioner for Ethical Standards in Public Life in Scotland, the Standards Commission for Scotland and the Scottish Information Commission.

Following discussion, the Committee:

- Agreed to continue its interest in the trend of a decreasing number of outcome decisions in relation to councils reached by the Commissioner for Ethical Standards in Public Life in Scotland.
- Noted the report.
- Agreed that the format of the report was helpful for the Committee to develop its approach to monitoring risk, to be discussed later in the meeting.

6. Risk management

The Committee considered a report by the Secretary proposing an approach to monitoring business and audit risk on behalf of the Commission.

During discussion, the Committee:

- Agreed that a higher level of reporting of business risk as proposed in the report be developed, incorporating a report to each quarterly meeting of the Committee, subject to grouping business risks in categories for analysis.
- Agreed that risk appetite be a core feature of the Commission's consideration of business risk, which will form part of discussion at the Commission's forthcoming Strategy Seminar.
- Agreed to note a the depth, rigour and continuous updating of methods used by Audit Scotland in its development and application of audit risk monitoring.

- Noted that the Performance Audit Committee would also be considering this matter.

Action: Secretary

7. Audit quality activity 2018/19: Update

The Committee considered a report by the Associate Director, Audit Quality and Appointments (AQA), which summarised developments in relation to the work of the AQA team.

Following discussion, the Committee noted the report.

8. Loans fund repayments

The Committee considered a report by the Director of Audit Services advising of a significant risk identified by Audit Scotland in relation to councils' repayment of their loans fund advances.

During discussion, the Committee noted advice from the Director that she would update the Committee as appropriate on ongoing dialogue between Audit Scotland and councils, including any matters associated with reputational risk to audit or the Commission.

Action: Director of Audit Services

Following discussion, the Committee noted the report.

9. Review of regulator/audit market study update

The Committee considered a report by the Director of Audit Services providing an update on recent developments in the commercial audit sector that are of relevance to public audit in Scotland.

During discussion, the Committee agreed that future papers be reported to the Committee as appropriate on:

- Implications of the Competition and Markets Authority Review of the provision of statutory audit in the UK commercial sector on the Commission's audit procurement strategy.

Action: Associate Director, AQA and Secretary

- Implications of the review of the Financial Reporting Council carried out by Sir John Kingman on behalf of the Department for Business, Energy, and Industrial Strategy on the Commission's audit quality framework.

Action: Associate Director, AQA

- Implications of these developments on United Kingdom legislation and any effect on Scottish public audit.

Action: Director of Audit Services

Following discussion, the Committee noted the report.

10. CIPFA Financial management code

The Committee considered a report by the Director of Audit Services providing a briefing on the proposals by the Chartered Institute of Public Finance and Accountancy (CIPFA) to publish a Financial Management Code for local government and the associated development of a financial resilience index.

During discussion, the Committee agreed to respond to the planned consultation on the Financial Management Code, a further paper on which will be considered at a future meeting.

Action: Director of Audit Services

Following discussion, the Committee noted the report

11. Any other business

The Chair, having advised that there was no business for this item, closed the meeting.

FINANCIAL AUDIT AND ASSURANCE COMMITTEE

MEETING: 28 NOVEMBER 2019

REPORT BY: SECRETARY TO THE COMMISSION

MINUTE OF PREVIOUS MEETING

Introduction

1. This paper provides updated information on the previous minute of the Committee.

Updated information

2. At its meeting on 10 October 2019, the Commission approved the attached minute as a correct record.

Conclusion

3. The Committee is asked to note:
 - The attached minute.
 - Any other updates provided at today's meeting.

Paul Reilly
Secretary to the Commission
20 November 2019

**MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF
26 SEPTEMBER 2019**

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Nelson Mandela Place, Glasgow on Thursday 26 September 2019 at 10.00am.

PRESENT: Pauline Weetman (Chair)
Andrew Burns
Sheila Gunn
Tim McKay
Elma Murray
Graham Sharp
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Controller of Audit
Fiona Kordiak, Director, Audit Services (Item 4)
Elaine Boyd, Associate Director, Audit Quality and Appointments (AQA) (Item 6)
John Gilchrist, Audit Manager, AQA (Item 6)
Anne MacDonald, Senior Audit Manager, Audit Services (Item 4)
Owen Smith, Senior Manager, AQA (Item 6)

Item No Subject

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 25 April 2019
4. Current issues in councils
5. Intelligence from Ombudsman – six monthly update
6. Draft refreshed audit quality framework
7. Any other business

1. Apologies for absence

It was noted that apologies for absence had been received from Sharon O'Connor.

2. Declarations of interest

The following declaration of interest was made:

- Geraldine Wooley, in item 4, as a taxpayer in Fife and a member of Fife Valuation Appeals Committee (in relation to references to Fife Council) and as a member of the Royal Institution of Chartered Surveyors (in relation to estates matters).

3. Minutes of meeting of 25 April 2019

The minutes of the meeting of 25 April 2019 were noted, having previously been approved as a correct record by the Commission.

4. Current audit issues in councils

The Committee considered a report by the Controller of Audit on emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee agreed:

- To note advice from the Director of Audit Services that, in relation to recent appointments, since the report had been published it had been announced that Angela Leitch, current Chief Executive of East Lothian Council, had been appointed as the new Chief Executive of Public Health Scotland, and Cleland Sneddon, current Chief Executive of Argyll and Bute Council, had been appointed as the new Chief Executive of South Lanarkshire Council.
- To note advice from the Director of Audit Services that the accounts of Dundee Integration Joint Board and Glasgow and Clyde Valley Strategic Planning Authority would not be signed by the required deadline of 30 September, due to circumstances beyond the auditors' control.
- To note further advice from the Director in this regard that she would advise the Committee in due course of any further local authorities where accounts are not signed off by the deadline.

Action: Director of Audit Services

- To note advice from the Director of Audit Services that the auditor for Renfrewshire Council will state a modified audit opinion on the accounts, and those accounts would not be signed off by the required deadline of 30 September.
- To note advice from the Controller of Audit in this regard that he was continuing to monitor progress in this matter, and would update the Commission as appropriate.

Action: Controller of Audit

- To note advice from the Controller of Audit that he was continuing to monitor how Midlothian Council is proceeding with implementing an action plan arising from the Council's consideration of the Best Value Assurance Report on the Council which had been published on 4 July, progress on which he anticipated would be reported in the external auditor's annual audit report.
- To note advice from the Director of Audit Services, in response to a query from Sheila Gunn, that she would investigate the length of payback periods for

council voluntary severance schemes and update the Committee as appropriate.

Action: Director of Audit Services

- That the Controller of Audit consider reporting formally to the Commission on the progress made by Glasgow City Council in relation to the settling of equal pay claims.

Action: Controller of Audit

- In relation to the impact of the McLeod ruling on local government pension schemes, to note advice from the Controller of Audit that the matter would feature in the pension supplement of the local government financial overview report, and that he would continue to update the Committee on the matter as appropriate.

Action: Controller of Audit

Following discussion, the Committee noted the report.

5. Intelligence from Ombudsman – six monthly update

The Committee considered a paper by the Secretary providing intelligence about councils from various sources including: correspondence to Audit Scotland, the Scottish Public Sector Ombudsman, the Standards Commission for Scotland, and the Scottish Information Commissioner.

Following discussion, the Committee:

- Noted advice from the Secretary that he would be liaising with the Commissioner for Ethical Standards in Public Life in Scotland on reporting appropriate information to the Committee.
- Noted the report.

6. Draft refreshed Audit Quality Framework

The Committee considered a report providing an update on the ongoing review by Audit Quality and Appointments of the Audit Quality Framework and seeking endorsement of a revised Audit Quality Framework.

During discussion, the Committee agreed:

- To endorse the proposed changes to audit quality reporting, subject to a sufficiently comprehensive report being provided to the Committee with information currently contained in the discontinued Q3/Q4 report.
- To endorse the proposed changes to key performance indicators, subject to the following:
 - In relation to the proposed removal of indicator P9 (diversity), to note its desire for a continuing reporting of Audit Scotland and firms' employee diversity data.
 - Further in this regard to note advice from the Director that she would give further consideration on how to progress this matter.

Action: Director, Audit Quality and Appointments

- In relation to the proposed removal of indicator IM19 (narrative examples of achievement of wider scope dimensions), to note

advice from the Controller that such narrative is an important feature of annual audit reports and the Annual Assurance and Risks report.

- In relation to indicator P5 (percentage of staff with CCAB qualifications), that the Director consider how to report on the use of specialised staff by audit providers.

Action: Director, Audit Quality and Appointments

- In relation to indicator R16 (percentage of performance audit reports issued on time), that such data reflect the distinction between performance audits and BVARs, and also that the Director consider how a future approach to auditing Best Value is reflected.

Action: Director, Audit Quality and Appointments

- That the Director consider how to report on high level messages in audit firms' individual transparency reports.

Action: Director, Audit Quality and Appointments

- In relation to stakeholder feedback:

- That further thought be given by the Commission, in considering the refresh of its Strategy, to developing the profile and presentation of examples of good practice in its work.

Action: Secretary

- To note advice from the Director that further consideration of the approach to stakeholder feedback would be considered by the Committee at its November meeting.

Action: Director, Audit Quality and Appointments

- To endorse the revised Audit Quality Framework, subject to incorporating some revisions raised in discussion.

Action: Director, Audit Quality and Appointments

7. Any other business

The Chair, having advised that there was no business for this item, closed the meeting

FINANCIAL AUDIT AND ASSURANCE COMMITTEE

MEETING: 20 FEBRUARY 2020

REPORT BY: SECRETARY TO THE COMMISSION

MINUTE OF PREVIOUS MEETING

Introduction

1. This paper provides updated information on the previous minute of the Committee.

Updated information

2. At its meeting on 12 December 2019, the Commission approved the attached minute as a correct record.

Conclusion

3. The Committee is asked to note:
 - The attached minute.
 - Any other updates provided at today's meeting.

Paul Reilly
Secretary to the Commission
12 February 2020

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 28 NOVEMBER 2019

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of West Port, Edinburgh on Thursday 28 November 2019 at 10.00am.

PRESENT: Pauline Weetman (Chair)
Andrew Burns
Sheila Gunn
Tim McKay
Elma Murray
Sharon O'Connor (by Skype)
Geraldine Wooley

COMMISSION MEMBERS

ALSO PRESENT: Christine Lester

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Controller of Audit
John Cornett, Audit Director, Audit Services (item 4)
John Gilchrist, Audit Manager, Audit Quality and Appointments (AQA) (item 6)
Fiona Kordiak, Director, Audit Services (items 3 to 5)
Anne MacDonald, Senior Audit Manager, Audit Services (item 4)
Paul O'Brien, Senior Manager (Professional Support) (item 5)
Owen Smith, Senior Manager, AQA (item 6)

Item No Subject

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 26 September 2019
4. Work programme update
5. Current issues in councils
6. Accounting and auditing update (six monthly report)
7. Audit quality interim report
8. Any other business

1. Apologies for absence

It was noted that apologies for absence had been received from Graham Sharp.

2. Declarations of interest

No declarations of interest were made.

3. Minutes of meeting of 26 September 2019

The minutes of the meeting of 26 September 2019 were noted, having previously been approved as a correct record by the Commission.

Arising therefrom, the Committee:

- In relation to item 4, third bullet point, noted advice from the Director, Audit Services that four local authorities (Renfrewshire Council, Dundee and Western Isles integration joint boards, and Glasgow and Clyde Valley Strategic Development Planning Authority) missed the deadline of 30 September for completion of the audit of their financial statements. In all four cases this was due to circumstances outwith the the auditors' control.
- In relation to item 6, fourth bullet point, noted advice from the Secretary that the Chief Executive of the Improvement Service would be speaking to the Commission at its January meeting, which presented an opportunity to discuss how both bodies present and promote good practice.

4. Work programme update

The Committee considered a report by the Controller of Audit on the progress of the work programme.

During discussion, the Committee:

- Noted advice from the Committee Chair that this was the first such report to the Committee, which will become a regular item.
- Noted advice from Tim McKay that:
 - The Housing Benefit Performance Audit Annual Review would be published on 14 January 2020.
 - Further in this regard, the ongoing thematic work in this regard, previously agreed by the Commission, would be reported to the Commission as follows:
 - Housing benefit overpayments: March 2020
 - Resourcing the benefits service: by end of March 2021.
- Noted advice from the Controller of Audit that he would continue discussion with the Secretary on developing the information presented in the report.

Action: Controller of Audit and Secretary

Following discussion, the Committee noted the report.

5. Current audit issues in councils

The Committee considered a report by the Controller of Audit on emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee agreed:

- To note advice from the Controller of Audit, in response to a query from the Committee Chair, that he would ensure that an actions tracker is incorporated into future reports.

Action: Controller of Audit

- To note advice from the Audit Director, Audit Services, in response to a query from the Committee Chair, that the next such report to the Committee would include an updated risk profile.

Action: Controller of Audit

- To note advice from the Director, Audit Services, in response to a query from Sheila Gunn and with reference to item 4 (seventh bullet point) of the minute of the meeting of 26 September, that she would report to the next meeting on the length of payback periods for council voluntary severance schemes.

Action: Director, Audit Services

- To note advice from the Controller of Audit, in response to a query from Sharon O'Connor, on national developments regarding responses to the Grenfell tragedy.

- In relation to queries from various members on allegations surrounding the awarding of a contract by Dundee City Council for heat and smoke and carbon monoxide detectors:

- To note advice from the Controller of Audit that the Council is continuing to keep the external auditor updated on investigations in this regard
- To note advice from the Controller of Audit that he would continue to monitor governance matters, particularly relating to elected member oversight, in relation to awarding of contracts across councils.

Action: Controller of Audit

- To note advice from the Secretary and Audit Director, Audit Services that they would discuss with other audit directors how such matters feature in audit risk monitoring.

Action: Secretary and Audit Director, Audit Services

- To note advice from the Controller of Audit, in response to a query from Andrew Burns, that he was continuing to monitor how Midlothian Council is proceeding with implementing an action plan arising from the Council's consideration of the Best Value Assurance Report on the Council which had been published on 4 July, progress on which had been reported in the external auditor's annual audit report.

Action: Controller of Audit

- To note advice from the Controller of Audit, in response to a query from Andrew Burns, that he would report to the next meeting on the impact of the Scottish budget timetable on local authorities' own budget-setting arrangements.

Action: Controller of Audit

- To note advice from the Audit Director, Audit Services, in response to a query from Tim McKay, that guidance has been issued to auditors from

Professional Support, Audit Scotland, on the accounting treatment of rescheduling of loans fund advances.

- To note advice from the Director of Audit Services, in response to a query from Tim McKay, that Professional Support has provided guidance to auditors on the accounting treatment of complex capital projects particularly where partnerships are involved.
- To note advice from the Controller of Audit, in response to a query from Sharon O'Connor, on the accounting treatment of Lender Option, Borrower Option Loans employed by Scottish councils.

Following discussion, the Committee noted the report.

6. Accounting and auditing update – six monthly update

The Committee considered a paper by the Director, Audit Services, advising of the main accounting and auditing developments since the previous paper to the Committee at its April meeting.

During discussion, the Committee:

- Noted advice from the Director that she would continue to monitor the application by The Chartered Institute of Public Finance and Accountancy (CIPFA) of its financial resilience index in England and Wales, particularly regarding any prospect of any proposal for its introduction in Scotland.

Action: Director, Audit Services

- In relation to a query from Tim McKay on the CIPFA/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code of Practice on Local Authority Accounting, particularly in relation to the accessibility to the public of local authority accounts:
 - Noted advice from the Senior Manager (Technical) that Professional Support are undertaking an ongoing good practice review of management commentaries in accounts, upon which he would report to a future meeting of the Committee.
 - Noted advice from the Director of Audit Services that the matter is being considered by the Redmond Review of local authority financial reporting and external audit in England.
 - Noted advice from the Secretary that the Commission's responsibilities in relation to its Statutory Performance Information Direction were of relevance to this matter, performance against which by councils was being considered by auditors in the current year, with a view to reporting in annual audit reports.
- Noted advice from the Senior Manager (Technical), in relation to a query from Pauline Weetman, on a likely limited impact on audit workload and fees arising from a revised ISA (International Standard of Auditing) on 'going concern'.

Following discussion, the Committee noted the report.

7. Audit quality interim report

The Committee considered a report by the Associate Director, Audit Quality and Appointments (AQA), presenting the report of AQA's work from 1 April to 30 September carried out to monitor the quality of audit performed by all audit providers between

During discussion, the Committee:

- Noted advice from the Senior Manager, AQA, in response to a query by the Committee Chair, that the Audit Quality Framework was signed off by the Audit Scotland Board at its meeting on 27 November and thus would be published forthwith.
- Noted advice from the Senior Manager, AQA, in response to a query from the Committee Chair, that paragraph 18 of the report should read "there is interest from the Accounts Commission on the extent...".

Action: Associate Director, AQA

- Noted the relevance to the Commission's ongoing consideration of a new Code of Audit Practice of the report's conclusions on risks arising from how Best Value work was reported in some 2018/19 annual audit plans.
- Noted advice from the Senior Manager, AQA, in response to a query from Tim McKay, that AQA had met with all audit providers in relation to the improvement area identified in paragraph 44 of the 2018/19 audit quality report regarding supporting positive conclusions in relation to audit dimensions.
- Noted advice from the Senior Manager, AQA, in response to a query from Geraldine Wooley, that AQA continues to monitor progress made by Audit Scotland and Grant Thornton against the improvement area identified in paragraph 72 of the 2018/19 audit quality report regarding addressing resourcing challenges identified by auditors, with a view to reporting further in the audit quality annual report 2019/20.

Action: Associate Director, AQA

Following discussion, the Committee:

- Noted the report and endorsed its conclusions, particularly the conclusions of the Associate Director that:
 - Auditors are delivering outputs within the expected deadlines and are preparing high quality audit plans.
 - The arrangements for reviewing and reporting on audit quality under the Audit Quality Framework are driving improvement in audit quality with clear evidence that previous recommendations are being implemented.
 - Audit work is of high quality and requires only limited improvements.
 - Public audit in Scotland is well placed to meet the challenges arising from current reviews of the auditing profession.
- Noted advice from the Audit Manager, AQA, that the report is shared with all audit providers.

8. Any other business

The Committee Chair advised the Committee that:

- She had recently observed a meeting of the Audit Scotland Audit Committee.
- She had asked the Secretary to discuss with the Commission Chair how to update the Commission on Audit Scotland Audit Committee business of relevance or interest to the Commission.

Action: Secretary

- She had resigned from her position on the New Audit Appointments Steering Group.

The Committee Chair, having advised that there was no further business for this item, closed the meeting.