



MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

**MONDAY 26 OCTOBER 2020
VIA DIGITAL MEETINGS SYSTEM**

Committee Members Present:

Councillor J Henderson (Convener)
Councillor S Currie
Councillor F Dugdale
Councillor C Hoy
Councillor G Mackett
Councillor K McLeod

Other Councillors Present:

Councillor S Akhtar
Councillor N Hampshire

Council Officials Present:

Ms M Patterson, Chief Executive
Mr A McCrorie, Depute Chief Executive (Resources & People Services)
Mr J Lamond, Head of Council Resources
Mr D Proudfoot, Head of Development
Ms S Saunders, Head of Communities & Partnerships
Ms S Fortune, Chief Operating Officer - Finance
Mr P Vestri, Service Manager – Corporate Policy & Improvement
Mr D Stainbank, Service Manager – Internal Audit
Mr R Parker, Service Manager – Education (Strat. & Ops.)
Ms A Glancy, Principal Accountant (Financial)
Mr G Davies, Financial Accountant

Clerk:

Miss F Currie

Visitors Present:

Ms G Woolman, Audit Scotland
Ms E Scoburgh, Audit Scotland

Apologies:

Councillor K Mackie

Declarations of Interest:

None

1. ANNUAL ACCOUNTS 2019/20

A report was submitted by the Depute Chief Executive (Resources & People Services) providing the Committee with an update on the main changes arising during the audit of the draft financial statements, and asking the Committee to approve the now audited annual accounts for 2019-20.

Sarah Fortune, Chief Operating Officer (Finance), presented the report explaining that the audited accounts would usually be presented in September but had been delayed due to the extension to the deadline for the annual audit report. She drew Members' attention to the main changes in the accounts as a result of the audit and confirmed that Audit Scotland had issued an unmodified audit opinion. She thanked her colleagues in the Council and Audit Scotland for their assistance during the process which had been made all the more challenging as a result of the pandemic.

In response to a question from Councillor Currie regarding areas of strength and weakness, Ms Fortune said that she and her colleagues always took the opportunity to review the process to identify what went well and what improvements could be made. While this annual review process had yet to take place and it was too early to focus on specifics, she observed that supporting the audit process remotely had been a significant challenge. She added that any improvements identified as a result of the review would be used to further refine processes going forward.

Jim Lamond, Head of Council Resources, suggested that the overall, very positive audit opinion was a major strength in the context of the work undertaken. He agreed that concerns about financial sustainability were a significant challenge for the Council and that COVID-19 had compounded matters. However, the Council regularly reviewed and refined its financial management plans and this work would continue during 2020/21.

The Convener and Councillor McLeod both sought clarification regarding some of the new terminology: 'emphasis of matter' and 'unmodified audit opinion'.

Mr Lamond explained that the term 'emphasis of matter' related to the impact of COVID-19 on the valuation of property, plant and equipment and reflected the ongoing uncertainty attached to valuations more generally. He added that the Royal Institute of Chartered Surveyors (RICS) had acknowledged this as an issue in relation to the valuation of property.

Gillian Woolman, Audit Director - Audit Scotland, advised that the term 'unmodified' replaced the previously used form of 'unqualified' in relation to the audit opinion. This change in terminology had been implemented following a change to international audit standards and the new language would be used for future audits.

Replying to a further question from Councillor McLeod, Ms Fortune agreed to provide him and other members of the Committee with an updated position regarding commitments within the Council's capital programme.

Councillor Currie referred to one of the Council's PFI contracts and the level of interest being paid and the possibility of buying out the contract. Mr Lamond confirmed that all PFI contracts were kept under review and there had been internal discussion about this particular contract. However, any buy out would require a willing third party and the less time there was left on a contract, the less of a case could be made for the benefits of renegotiation.

Ms Fortune added that the interest rate applied to the payments was reviewed every year in December and that should the rate reduce, future payments would also reduce.

Councillor Dugdale asked for clarification of the statement in the accounts foreword that a significant injection of resources would be needed to maintain services.

Mr Lamond stated that the full impact of COVID-19 had yet to be felt. The reference to significant resources meant full funding for the Council's outlay in responding to the crisis, over and above the funds provided by Government to support business. If full funding was not provided then this would be a significant factor in future financial planning and would impact on the Council's financial strategy.

Councillor Currie observed that, given the current situation, proper financial scrutiny was more important than ever to provide reassurance the public. He said he had raised the issue of PFI contracts as an example of public money being paid year on year for no additional services. Notwithstanding these concerns, he commended the Council's officers for their efforts in delivering the completed accounts and for continuing to ensure that all money spent was properly accounted for.

The Convener also offered her thanks to officers for their dedication and focus. She said that completing the accounts and supporting the audit work under such challenging circumstances had been an extraordinary achievement.

The vote on recommendation ii was taken by roll call:

Councillor S Currie	Agreed
Councillor F Dugdale	Agreed
Councillor J Henderson	Agreed
Councillor C Hoy	Agreed
Councillor G Mackett	Agreed
Councillor K McLeod	Agreed

Decision

The Committee agreed to:

- i. Note the main changes arising during the course of the audit; and
- ii. Approve the 2019-20 audited accounts for the Council and its group components.

2. ISA 260 LETTER FROM AUDIT SCOTLAND (ELC) AND ISA 260 LETTER FROM AUDIT SCOTLAND (DR BRUCE FUND)

Ms Woolman presented the ISA 260 letter to those charged with governance, prepared following the audit of the Council's annual accounts for 2019/20. She highlighted some of the key points including confirmation that the financial statements represented a 'true and fair view' and that this would result in an unmodified audit opinion. She added that this was a very good position for the Council to be in and an important point for the Members to take from the audit. She reiterated her explanation of the change of terminology and the clarification regarding the Emphasis of Matter paragraph. She also referred to the report for inclusion in the annual accounts and the draft letter of representation from the Council's Section 95 Officer.

Esther Scoburgh, Senior Audit Manager - Audit Scotland, presented the ISA 260 letter and appendices prepared following the audit of the Dr Bruce Fund annual accounts for 2019/20. She explained that this was required for all registered charities and that the Council was sole trustee of the Dr Bruce Fund. She outlined the purpose of the Fund and the awards made during 2019/20, and advised that the Fund would form part of the Council's wider review of common good and trusts funds referred to in the main annual audit report. She confirmed that she would be issuing an unmodified audit opinion and that there were no other matters to report to Members.

Responding to a question from Councillor Currie on the terms of the review of common good and trust funds due to be presented to Council, Ms Woolman advised this would be followed up as part of the 2020/21 audit.

Decision

The Committee agreed to note the contents of the ISA 260 letters and appendices.

3. EAST LOTHIAN COUNCIL 2019/20 ANNUAL AUDIT REPORT

Ms Woolman presented the annual audit report for 2019/20, prepared by Audit Scotland.

She outlined the key messages in the report including financial management and sustainability, governance and transparency and value for money. She then provided a detailed summary of the findings from the audit of the annual accounts drawing attention to areas of particular interest. She said that while it had not been possible to meet the normal deadline of 30th September, she was pleased to be able to present the completed audit report before the revised deadline of 30th November. She expressed her appreciation for the support and access provided by Council staff in such challenging circumstances. Referring to the audit for 2019/20, she said that this would be representative of 'year zero' in terms of the impact of COVID-19 and would provide a useful comparison for current and future years.

Ms Woolman informed Members that overall the financial statements provided positive assurance and there were no material misstatements to be reported. She referred to efficiency savings and the Transformation Programme, and in respect of governance and transparency, noted that public expectation was increasing in these areas. She highlighted the use made of technology for Council and committee meetings and the inclusion of stakeholders. She also drew attention to the appendices which included the action plan of recommendations for improvement which the Committee would want to monitor going forward.

Councillor Hoy referred to comments in the report regarding financial sustainability, particularly in relation to additional interventions required. He asked for a view on might be facing the Council if it was not fully funded for its outlay on COVID-19.

Ms Woolman observed that East Lothian Council was not alone in these concerns and that a lot of uncertainty remained. She said only now were Councils and other bodies beginning to see the manifestation of costs coming through as a result of COVID-19 and that discussions had been taking place over recent weeks between local authorities, CoSLA and others regarding the potential for future financial flexibility.

Mr Lamond acknowledged that financial sustainability was always a challenge and that COVID-19 had added an additional layer of difficulty, particularly if Councils were not

fully funded. He would be reporting to Council this week, highlighting that it may be necessary to change the financial strategy and setting out some action to be taken in the meantime. He said it was a very fluid situation and only when further clarity was provided on whether funding was coming to an end would it be possible to look at the full impact and what other options might be available.

Replying to questions from Councillor McLeod, Ms Fortune confirmed that the Council's treasury management activity was reflected within the annual accounts. She added that the mid-year review of the Treasury Management Strategy would be presented to the Committee at its November meeting and this would set out the current position in 2020/21. She also confirmed that the Council could not borrow for revenue purposes. She stated that while there were discussions ongoing about the potential for flexibility within financial management, for the moment, the Council continued to operate its Treasury Management Strategy in line with existing guidance.

Mr Lamond reiterated that normal treasury management activity had not been frozen and that this would be made clear in the mid-year report to the Committee in November.

Councillor Currie asked about medium and long-term financial planning and effect which delays and uncertainties related to UK and Scottish Government budgets might have on the Council's ability to set a single or multi-year budget in February 2021. He also sought a view on the costs of the Transformation Programme compared to the savings gained, and to concerns around the deliverability of efficiency savings whether due to COVID-19 or other factors.

Ms Woolman said the Councillor had articulated well the challenges moving ahead. She acknowledged that, as in previous years, where finance officers had to operate without indicative budgets there would be a risk and sensitivity analysis attached to this work and it would be important not to provide false assurances. In relation to efficiency savings and the Transformation Programme, she referred to the recommendation in the audit report on the transparency of performance monitoring and reporting as a way of providing greater confidence to Members on the outcomes from improvement actions.

Councillor Dugdale highlighted positive comments within the audit report regarding governance and transparency, in particular the revised governance arrangements put in place following the lockdown in late March. She also welcomed the recognition given to Internal Audit assurance reports as examples of good practice. She expressed her thanks to all involved for their continuing work to ensure good financial stewardship within East Lothian Council.

The Convener also thanked Audit Scotland for their work. She said it was important to remember that although the auditors worked closely with officers within the Council, their role was to audit and not to advise.

Decision

The Committee agreed to note the contents of the annual audit report for 2019/20.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee