

AUDIT AND SCRUTINY PANEL - 9 DECEMBER 2021

9 December 2021 at 1 pm.

A Remote Meeting of the **AUDIT AND SCRUTINY PANEL**

PRESENT

Councillor Watson, Convener; Councillor Stevenson, Vice-Convener; Councillors Burrows, Carragher, Douglas, Hume, Loughran and Alan Valentine.

CHAIR

Councillor Watson (Convener) presided.

IN ATTENDANCE

The Head of Financial Solutions; Head of Business Solutions; Audit and Risk Manager; Strategy and Performance Manager; Accountant; Information Risk Manager; ICT Security Officer; Principal Auditor, and Democratic Services Manager.

ALSO IN ATTENDANCE

B. Howarth (Assistant Director of Audit Services) and G. McCreadie (Audit Manager), Audit Scotland.

APOLOGIES

Councillors Anderson and T. Johnston.

Prior to commencement of business, the Convener indicated that he would take agenda items 10, 11, 12 and 13, related to the 2020/21 External Audit as the first four items of business.

DECLARATIONS OF INTEREST IN TERMS OF THE ETHICAL STANDARDS IN PUBLIC LIFE ETC. (SCOTLAND) ACT 2000

1. There were no declarations of interest.

As indicated by the Convener at the commencement of the meeting, he had agreed to vary the order of business as hereinafter minuted.

ANNUAL ACCOUNTS 2020/21 - LETTERS OF REPRESENTATION

2. There was submitted a report by the Head of Financial Solutions providing the Panel with information on the Letters of Representation required to be submitted to Audit Scotland in respect of the Council's Annual Accounts and the Council's Charitable Trust Accounts for 2020/21 (1) indicating that the Letters of Representation had been signed by the Head of Financial Solutions in her capacity as the Council's Section 95 Officer and Trustee for the Charitable Trust and Educational Trust; (2) attaching, as an Appendix to the report, a copy of both Letters of Representation; (3) explaining that, as in previous years, the letters set out the representations of management and confirmed that the accounts were free from material mis-statement; (4) reporting that during the course of the audit, the External Auditors had highlighted a number of mis-statements within the Council's Financial Statements which had been adjusted for the audited accounts where these were material, and (5) advising that a list of items that had arisen relating to the Council's Accounts and the Charitable Trust and Educational Trust Accounts were contained within the External Audit Annual Audit Report.

The Panel agreed that the Letters of Representation, as provided to Audit Scotland, be noted.

ANNUAL ACCOUNTS 2020/21 - EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2020/21 AUDIT

3. There was submitted a report by the Head of Financial Solutions permitting the Panel to consider the External Auditor's comments on specific matters arising from its audit of the Financial Statements for both the Council and the Charitable Trust in Education Endowments administered by the Council (1) providing background to the appointment of External Auditors to the Council and their role and remit; (2) explaining that, following completion of the audit, Audit Scotland had produced reports to those charged with governance on the 2020/21 Audit for both the Council, and the Council's Charitable Trust in Education Endowments, and (3) attaching, as Appendices to the report, reports from Audit Scotland in relation to the Council and the Council's Charitable Trust in Education Endowments.

B. Howarth spoke to the report by the External Auditor, following which the Panel agreed to note the report.

EXTERNAL AUDIT: ANNUAL AUDIT REPORT 2020/21

4. There was submitted a report by the Audit and Risk Manager presenting to the Panel the Annual Audit Report produced by the Council's appointed External Auditors, Audit Scotland, in respect of the audit for the Council for the year ending 31 March 2021 (1) explaining that the Accounts Commission had appointed Audit Scotland as the Council's appointed External Auditor for the five year period from 2016/17 and that Audit Scotland is required to annually prepare a report for Elected Members and the Controller of Audit, summarising the audit work and presenting the main findings arising from the audit; (2) informing the Panel that the External Auditor's report presents key matters arising from each of the main areas of work undertaken by the External Auditor including the audit of Financial Statements and issues relating to the Council's Financial Management, Financial Sustainability, Governance and Value for Money arrangements; (3) highlighting that, as outlined in the report by the External Auditor, it was able to place an unqualified audit opinion on the 2020/21 Financial Statements and that, although a small number of issues were highlighted by the External Auditor where scope for further improvement exists, overall the report is considered by management to be positive with no significant weaknesses identified, and (4) attaching, as an Appendix to the report, the Audit Scotland Annual Audit Report 2020/21.

The Panel agreed:-

- (1) that the External Auditor's Annual Audit Report be noted, and
- (2) that implementation by management of actions agreed in response to External Audit's recommendations be monitored through reports from Internal Audit.

ANNUAL ACCOUNTS 2020/21 (AUDITED)

5. There was submitted a report by the Head of Financial Solutions presenting the Council's final 2020/21 Annual Accounts, and providing Elected Members with the background on the need to consider matters raised by Audit Scotland in respect of examination of the accounts (1) reminding the Panel that the Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare an Annual Statement of Accounts in accordance with proper accounting practices and that the Audit Commission appoints External Auditors to Local Authorities in order to carry out the Audit of Financial Statements in accordance with International Standards in Auditing; (2) explaining that the Coronavirus (Scotland) Act 2020 permits public bodies to postpone complying with the statutory duty to publish a report if they are of the view that complying with the duty would be likely to impede their ability to take effective action to prevent, protect against, delay or otherwise control instances on transmission of Coronavirus; (3) informing the Panel that the review of the 2020/21 Accounts by Audit Scotland was now complete and that the final version of the accounts was attached to the report as an Appendix; (4) indicating that, following consideration of the accounts, a copy of the final accounts signed by

Council Officers and the Audit Director would be submitted to Audit Scotland and that a full Annual Report had been prepared by Audit Scotland and considered elsewhere in this meeting.

B. Howarth spoke to the report by Audit Scotland and wished to place on record the thanks of Audit Scotland for the co-operation of the Council Officers involved for their co-operation and support.

Following which, the Panel agreed:-

- (1) that the contents of the report be noted, and
- (2) that the final accounts, as attached to the report, be signed.

AUDIT AND RISK RELATED ITEMS: ACTION LOG

6. There was submitted a report by the Audit and Risk Manager enabling the Panel to track implementation of requests and recommendations made by it in respect of Audit and Risk related to items in the previous 18 months with the action log, attached at Appendix 1 to the report, recording those requests and recommendations made by the Panel detailing when these had been addressed and/or were expected to be addressed.

The Panel agreed that the contents of the report be noted.

INTERNAL AUDIT PROGRESS REPORT

7. There was submitted a report by the Audit and Risk Manager (1) providing an overview of Internal Audit activity; (2) reporting the results of Internal Audit outputs finalised since the last update to the Panel in September 2021; (3) highlighting the most significant issues arising from the completed audit work; (4) updating the Panel on other aspects of the work of Internal Audit, and (5) attaching, as an Appendix to the report, a brief summary of the scope and key findings of each substantive planned audit together with a supplementary pack containing copies of those reports.

The Panel agreed:-

- (1) that the findings, conclusions and recommendations of completed Internal Audit reports, together with the associated management responses, be noted;
- (2) that Internal Audit provide a report to future meetings of the Panel on progress made in implementing agreed management actions in relation to all audit recommendations categorised as "red" or "amber", and
- (3) that, otherwise, the contents of the report be noted.

INTERNAL AUDIT: FOLLOW UP OF ACTIONS PREVIOUSLY AGREED BY MANAGEMENT IN RESPONSE TO AUDIT RECOMMENDATIONS

8. There was submitted a report by the Audit and Risk Manager (1) detailing the extent to which management had implemented actions previously committed to in response to recommendations in Internal Audit reports, where those actions were due to be completed by the end of September 2021; (2) advising that Internal Audit had concluded that six of the fifteen actions agreed in response to relevant Internal Audit recommendations during the period July to September 2021 had been fully completed, with eight being partially implemented and one that was considered no longer relevant; (3) explaining that four of the eleven actions agreed in respect of external audit outputs had been completed, three had been partially implemented, two were not yet due and two were no longer

considered relevant, and (4) attaching, as an Appendix to the report, commentary from management and details of proposed management actions and revised target dates with completion of those outstanding audit recommendations where Internal Audit assess the residual risk as High or Medium.

The Panel agreed that the contents of the report be noted.

NATIONAL FRAUD INITIATIVE – UPDATE

9. There was submitted a report by the Audit and Risk Manager informing the Panel of the progress made to date by the Council in response to the 2020 National Fraud Initiative (NFI) Data Matching Exercise (1) explaining that NFI is the Data Matching Exercise, organised by Audit Scotland, which is undertaken every two years and is widely recognised as an important tool in detecting and preventing fraud; (2) describing that NFI involves comparing data sets using criteria which allows for the identification of inconsistencies and anomalies which may be indicative of possible fraud and/or error which then enables public bodies to follow up matches on a targeted and prioritised basis to establish if fraud has occurred and to take appropriate action; (3) providing details of data matches undertaken and illustrating whether fraud and/or error had been identified and whether there was a corresponding financial implication; (4) providing an explanation as to how various data matches, and the outcomes of the matching exercise, were being dealt with within the Council, and (5) providing an update on ongoing fraud issues in relation to Covid 19 Business Grants.

The Panel agreed:-

- (1) that the contents of the report be noted, and
- (2) that the progress made to date in relation to the follow up of matches be noted.

RISK MANAGEMENT UPDATE

10. There was submitted a report by the Audit and Risk Manager (1) providing an update to the Panel on Risk Management developments in the period with a particular focus on two risks – work force pressures and supply chain risks – where residual risks had increased significantly in recent months such that they were now subject to regular and ongoing consideration by the Corporate Management Team; (2) summarising how these risks were currently impacting on the Council, how management was currently seeking to mitigate these risks and any future planned activity, and (3) confirming that Risk Registers remain in place across the organisation, with work ongoing within Services to ensure that Risk Registers remain comprehensive, up to date and reflect current organisational objectives, management arrangements and the ongoing impact of Covid 19.

The Panel agreed:-

- (1) that it be noted that the residual risks associated with work force pressures and supply chain risks had increased significantly in recent months and were now subject to regular and ongoing consideration by the Council's Corporate Management Team;
- (2) that it be noted that both risks, if not effectively mitigated, had the potential to impact significantly on service delivery, financial performance and the achievement of planned outcomes;
- (3) that it be noted that actions are being taken, or planned, by Services and the Council more corporately to mitigate these risks, and that Services will continue to manage risks in accordance with the Council's Risk Management Strategy, and
- (4) that, otherwise, the contents of the report be noted.

ICT OPERATIONAL CAPABILITY RISK – DEEP DIVE

11. There was submitted a report by the Head of Business Solutions (1) focusing on the deep dive of the ICT Operational Capability Risk due for assessment as of September 2021; (2) reporting that details had now been reviewed and signed off by the Enterprise Architecture Governance Group (EAGG) on 3 November 2021; (3) providing the Panel with an update on measures to address this risk, which carries a high residual score, and (4) presenting an overview of existing controls and actions taken to date to mitigate against this risk, as well as further actions planned to continue to manage and update this risk to fully reflect the change in landscape of ICT Service Delivery.

The Panel agreed:-

- (1) that the actions taken to date to manage the ICT Operational Capability Risk be noted;
- (2) that the ongoing actions to manage this risk, as detailed in the report, be noted, and
- (3) that the future planned actions, as detailed in the report, be noted.

PCI-DSS COMPLIANCE - PROGRESS REPORT

12. With reference to paragraph 10 of the Minute of the meeting of the Audit and Scrutiny Panel held on 30 June 2021, there was submitted a report by the Head of Business Solutions providing the Panel with an update on the Council's progress on achieving compliance with the Payment Card Industry Data Security Standard (PCI DSS) (1) summarising the positive actions completed to date to achieve compliance; (2) highlighting the further activities which are necessary for the Council to achieve PCI DSS compliance; (3) reminding the Panel that at its meeting in June 2021 it had been noted that a substantial level of work remained, particularly regarding Mail Order/Telephone Order (MOTO) transactions to achieve compliance with these requirements, and that such needs required to be considered alongside the procurement and resourcing requirements of several other high priority programmes and, accordingly the target date for achieving full compliance had been revised to March 2022, and (4) illustrating progress against the planned activity, with a summary of compliance levels as of October 2021 provided within the report.

R Leitch and G Livingston responded to a number of questions from the Panel.

The Panel agreed:-

- (1) that the content of the report, and the significant developments completed to date in progressing the Council towards compliance, be noted;
- (2) that it be noted that a substantial level of work remained, particularly relating to MOTO transactions, to achieve compliance with relatively complex requirements and that this work required to be managed against a backdrop of competing high priority programmes, and
- (3) that the revised timeframe of March 2022 to achieve full compliance, with all strands of the PCI DSS requirements being dependent upon the support of stakeholders which are each faced with the progressing competing programme of work actions, be noted.

SENIOR INFORMATION RISK OWNER (SIRO) - PROPOSED INFORMATION GOVERNANCE - ASSURANCE AND PERFORMANCE REPORT

13. There was submitted a report by the Head of Business Solutions (1) reporting that the role of the Senior Information Risk Owner (SIRO) sits with the Head of Business Solutions; (2) explaining that the SIRO requires to be a member of the Senior Executive Team, has ownership of the Council's Information Risk Policy and acts at the strategic level as the advocate of information assurance and

risk; (3) reminding the Panel that in June 2019, Internal Audit had issued findings in respect of the adequacy and effectiveness of the Council's approach to information governance issues, with such assessed as giving "reasonable assurance"; (4) reporting that the key recommendation from that report was a requirement to present to both Senior Management and Elected Members an annual overview report of the Council's information governance arrangements, performance and compliance against key expectations and requirements; (5) informing the Panel that this report fulfils that requirement and includes information for financial years 2019/20 and 2020/21 but, for future years, would revert to annual reporting, and (6) detailing the actions which the Data Management Team (DMT) has planned to further improve awareness and understanding, to ultimately ensure that the Council can comply with legislative requirements and good practice.

The Panel agreed:-

- (1) that the activities which have been undertaken or are underway to enable the SIRO to provide assurances that information risks are being effectively managed be noted, and
- (2) that the activities and next steps planned to further improve the Council's information governance arrangements be noted.