MINUTE

of

AUDIT & SCRUTINY COMMITTEE

Minute of meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 27 March 2025.

Present:

Councillor Andrew Morrison (Chair)
Councillor Tony Buchanan (Vice Chair)
Councillor Paul Edlin
Councillor Annette Ireland
Provost Mary Montague
Councillor Gordon Wallace

Councillor Morrison in the Chair

Attending:

Louise Pringle, Director of Business Operations and Partnerships; Kirsty Stanners, Head of Finance (Chief Financial Officer); Michelle Blair, Chief Auditor; Barbara Clark, Chief Accountant; Ian McLean, Senior Auditor; Anthony Jenkins, Resilience Coordinator; Linda Hutchison, Clerk to the Committee; and Bethany Mitchell, Assistant Democratic Services Officer.

Also Attending:

Laura Prior and Grace Scanlin, Ernst and Young.

Apology:

Councillor David Macdonald.

DECLARATIONS OF INTEREST

1158. There were no declarations of interest intimated.

CHAIR'S REPORT - MEETING WITH EXTERNAL AUDITOR

1159. Under reference to the Minute of the meeting of 20 February (Page 1085, Item 1116 refers), when it had been noted that Councillor Morrison was due to have his next regular meeting with the External Auditor on 20 March, Councillor Morrison reported that issues discussed had included the financial positon of the Council and future forecasts; governance issues; and matters relating to Internal Audit. Furthermore, an update had been provided on the Audit, including the provisional Annual Audit Plan and key audit matters; and Best Value related issues had been discussed, such as the thematic review on Transformation on which the Committee would receive a report in due course, and a proposed presentation to the Committee in June on the Council's Best Value report.

The Committee noted the report.

INTERIM TREASURY MANAGEMENT REPORT 2024/25 – QUARTER 4

1160. Under reference to the Minute of the meeting of 23 January (Page 1058, Item 1087 refers), when it had been agreed to note the Interim Treasury Management Report for Quarter 3 of 2024/25 and recommend to the Council that the organisations specified in the report for investment of surplus funds be approved, the Committee considered a report by the Head of Finance (Chief Financial Officer) on treasury management activities for Quarter 4.

The report explained that, in line with the CIPFA Code of Practice on Treasury Management, the Committee was responsible for ensuring effective scrutiny of the Council's treasury management activities, in accordance with which the interim Treasury Management Report for the period ending 31 March 2025 was attached to the report for consideration.

Whilst highlighting key issues, the Chief Accountant clarified that no further borrowing had been taken during the quarter due to current high interest rates offered, but that as balances depleted this position would be unsustainable. The Council continued to adopt a prudent approach to treasury management and, in particular, the percentage of loans held as at 28 February 2025 with variable interest rates was 5.6% which was well below the Council's approved upper limit of 15%.

Having reported on short term investments which had decreased due to cash flows in both capital and revenue, the Chief Accountant highlighted the prudential indicators referred to in the report which helped confirm that capital investment plans and treasury management decisions remained affordable, prudent and sustainable. She explained that implementation of a new accounting standard required assets that were leased, rented or hired to be brought onto the balance sheet, impacting on the levels previously approved for most of the indicators. Consequently the Committee was being asked to recommend to the Council that these indicators be approved at revised levels, incorporating the requirements of the new standard.

The Chief Accountant confirmed that the Council's list of counterparties remained unchanged from the one for Quarter 3, and clarified that all investments were restricted to UK bodies with high credit ratings, with the maximum period of investment, in general, restricted to 6 months.

In response to Councillor Ireland, the Chief Accountant commented further on future borrowing requirements and related cash flow issues.

The Committee agreed:-

(a) to **recommend to the Council** that the:-

(i) proposed increases in the Prudential Indicators, as a result of the introduction of the new financial reporting standard, International Financial Reporting Standard (IFRS16), be approved; and

(ii) organisations specified in the report for the investment of surplus funds be approved; and

(b) otherwise, to note the report and related comments made.

REVIEW OF STRATEGIC RISK REGISTER – BIANNUAL REPORT

1161. Under reference to the Minute of the meeting of 26 September 2024 (Page 955, Item 966 refers), when the position on the Strategic Risk Register (SRR) and related issues had been noted, the Committee considered a report by the Chief Executive regarding the most recent biannual update of the register.

The report referred to the Council's approach to risk management, confirming that the SRR appended to the report itemised key strategic risks considered, and actions identified to manage these. The report explained that no risks had been removed from the SRR and no new ones had been added, clarifying that updates had primarily been made to existing and proposed controls. 13 strategic risks remained, 8 of which were regarded as high risk, the remaining 5 being amber. A summary of the changes made was provided.

Having highlighted that an update of the Council's Risk Management Strategy and Risk Management Framework was required during 2025, the report referred to related training workshops that had taken place for officers, learning from which would help shape the update of a single Risk Management Framework/Strategy and align it with *A Place to Grow* and the Council's People vision. Opportunities for a further workshop for Elected Members and Integration Joint Board (IJB) representatives were also being explored.

The Resilience Coordinator highlighted key aspects of the report, including changes made to the SRR, the updating of the Strategy/Framework, and work to be done to align the Strategy and SRR with *A Place to Grow* and People Vision. He confirmed that a workshop, supported by Zurich Insurance, was planned to which all members of the Committee, Cabinet and voting members of the IJB would be invited on a date to be confirmed later in 2025 at which discussion would take place on various issues, including good characteristics of risk management and related best practice; and the Risk Strategy and future direction on this.

Having highlighted that the risk of major works capital programmes facing unanticipated challenges due to external factors remained medium (Risk 6.22 refers), Councillor Wallace referred to progress on the Aurs Road City Deal project, and asked if this risk was now higher than before. The Resilience Coordinator confirmed that the SRR remained a live document, undertaking to seek clarification on this and provide feedback.

Councillor Morrison highlighted that, at one stage, the biannual risk reports submitted to the Committee had included reference to horizon scanning on emerging risks or concerns, supporting the reintroduction of this information within the reports. The Resilience Coordinator confirmed that horizon scanning was still undertaken by the Corporate Management Team, and undertook to alert them to the suggestion made. He added that if there were further report changes Elected Members would consider useful, these could be suggested at the workshop.

In response to Councillor Ireland, the Resilience Coordinator clarified that it was hoped to align the Risk Management Framework/Strategy and SRR with *A Place to Grow* in time for this to be reflected in the next biannual report submitted to the Committee. In reply to Councillor Morrison who raised issues regarding the potential full or partial operational loss or restrictions on the use of school/nursery buildings (Risk 2.1.3 refers) and referred to the related condition survey, the Resilience Manager undertook to check and confirm if it would be completed earlier than February 2026 as work on this was ongoing.

Councillor Buchanan commented on an emerging risk of potential increased pressures on council services linked, for example, to the impact on individuals and organisations in the third sector of price rises and increased National Insurance contributions. The Head of Finance (Chief Financial Officer) confirmed that direct costs of the National Insurance increase had been factored into the 2025/26 budget, in accordance with discussions with the Budget Strategy Group, and that the pressure on commissioned HSCP services had been quantified and included within their budget. However, taking account of the Council's prudent financial approach, officers would endeavour to manage the risks associated with the potential impact on costs associated with the Council's contracts within existing budgets. An exercise was underway to capture associated risks, the outcome of which would be reported on through budget reports, and issues would be considered further if it was felt they could not be managed. She confirmed that, when the SRR was reviewed, it would be considered if emerging risks, such as the one cited by Councillor Buchanan, needed to be added to it or if they could be managed at another level.

Commenting on the risk score for Braidbar Quarry (Risk 3.5), Councillor Wallace expressed the view that, given control measures already in place, the likelihood of a problem occurring was low rather than medium, whilst acknowledging that the potential impact of one could be higher. He considered it important not to indicate a major safety concern where one was not considered to exist, referring to how the score could be perceived out with the Council. Having referred to discussions that had already taken place to determine the risk score, the Director of Business Operations and Partnerships confirmed there had been no significant change regarding the Quarry, and that the scoring could be discussed further with Zurich Insurance, such as at the forthcoming Elected Member workshop. Given the live status of the SRR, Councillor Wallace requested further feedback on how often the score was revisited and the specific issue he had raised.

The Committee agreed:-

(a) that the Resilience Co-ordinator seek and provide further clarification on the following issues:-

  (i) if the risk regarding major works capital programmes facing unanticipated challenges as a result of external factors during the lifespan of projects (Risk 6.22) was now higher than before, taking account of the position regarding the Aurs Road City Deal project;

  (ii) the timescale for completing the school condition survey, and if this would be earlier than February 2026 as work on this was ongoing (Risk 2.1.3 refers); and

  (iii) how often the risk score for Braidbar Quarry was revisited (Risk 3.5 refers) and the score currently attributed to the likelihood of there being a risk, given the mitigations already in place;

(b) that it would be considered valuable by the Committee if comments on horizon scanning for risks could be reintroduced in the biannual reports it received;

(c) that feedback be provided to senior officers on other comments made at the meeting on the Strategic Risk Register as appropriate; and

(d) otherwise, to note the development of the Strategic Risk Register; that it was considered to be a live document; and that it would be updated and amended by the Corporate Management Team.

EAST RENFREWSHIRE COUNCIL – PROVISIONAL ANNUAL EXTERNAL AUDIT PLAN FOR YEAR ENDED 31 MARCH 2025

1162. The Committee considered a report by the External Auditor regarding the provisional Annual Audit Plan for the year ended 31 March 2025, which referred to the purpose of the Plan, the scope of and responsibilities associated with it, and related issues.

Whilst commenting on the financial statements audit, the report made reference to issues on which an opinion would be offered. The audit would also include a review of the consistency of other information prepared and published along with the financial statements; and determine with reasonable confidence whether they were free from material misstatement. Regarding the latter, reference was made to performance and planning materiality levels set, and the reporting threshold level above which the External Auditor would report misstatements to the Committee. The audit would take account of an updated International Auditing Standard (ISA 600); and Best Value considerations would be integrated with wider scope audit work.

A summary was provided regarding three significant risks impacting on the audit of the financial statements, these being the risks of fraud in revenue and expenditure; of misstatement due to fraud and error; and regarding the valuation of property, plant and equipment. Information was also provided on three inherent risks impacting on the audit of the financial statements which related to the valuation of pension assets and liabilities; the valuation of Private Finance Initiative (PFI)/Public Private Partnership (PPP) liabilities; and the implementation of International Financial Reporting Standard (IFRS) 16.

Amongst other things, the report highlighted areas of audit focus in relation to Best Value and the wider scope audit dimensions, making reference to financial sustainability in terms of the development of sustainable and achievable medium term financial plans; and a Best Value Thematic Review which would focus on Transformation.

Other issues commented on were key developments in the sector within which local authorities operated to inform the audit approach taken, namely the position on local government finances, the Scottish budget, IJBs' finances and the Controller of Audit Report on Best Value for East Renfrewshire published in February 2025. Further details were provided on the approach to be taken, assessment of, and the External Auditor's response to, significant risks regarding the financial statements, and the Best Value and wider scope audit work to be progressed. Required communications, related timescales for these, and the 2024/25 audit fees and related issues, were amongst other issues commented on.

Mr Jones highlighted various key aspects of the Plan in advance of the approval of the financial statements later in 2025, referring to the executive summary and more detailed information provided. Amongst other things, he highlighted the need to comply with the implementation of IFRS 16, acknowledged the financial challenges facing local authorities, and reported it was hoped to submit the Best Value related report on Transformation to the Committee in June.

In response to a wide range of questions from Elected Members, Mr Jones first cited examples of infrastructure assets and referred to their valuation when under construction and on completion. Regarding the delayed Aurs Road City Deal project, he indicated that the project would be looked at as part of wider scope audit work and from an accountancy perspective. He also commented on complexities associated with the fair valuation of roads without undertaking a huge amount of work, the depreciation of such assets, and that, when considering the accounting treatment, officers would look at the business case for such assets in determining if any additional costs incurred during construction were reasonable. Speaking in more general terms, he added that when projects were delivered over budget, that did not necessarily impact on the valuation of the asset.

Regarding what was deemed a reasonable frequency for the revaluation of property taking account of accounting code requirements, he confirmed that there was an expectation that this was done every 5 years as a minimum. However, he also referred to the need to scrutinise what was actually needed, such as to take account of inflation. He confirmed that discussions took place with Council managers on this issue annually, and these had taken place when determining and agreeing which assets needed to be revalued for the 2024/25 audit.
Mr Jones also confirmed that, in terms of materiality, a focus was generally placed on the largest assets, but clarified that all properties were valued as part of the preparation of the last two sets of financial accounts. Having heard the Head of Finance (Chief Financial Officer) clarify the distinction between valuations for the purpose of the Annual Accounts and property condition surveys, Mr Jones clarified that whilst the condition of a property could impact on its valuation, and this was accounted for using obsolescence factors, property condition surveys, which fulfil a different purpose, were far more detailed. Regarding audit sampling of building valuations, he cited the example of schools, the valuation of which was tested annually as

their valuation was deemed material, confirming also that some testing was always done each year.

Regarding the new Sports and Leisure Centre, Mr Jones, clarified that the approach taken during the audit was informed by the materiality of the expenditure, and that the Centre would be regarded as an asset under construction until operational. He stated that it was not uncommon for projects to be delivered over budget, due to the impact of inflation on multiyear projects for example, and that the recovery of costs over the lifetime of the asset would need to be determined. He added that, when considered relevant or important to comment on issues with any project, these would be included in the Annual Audit Report.

In response to questions regarding budget monitoring reports and what would be considered a significant underspend, Mr Jones explained that, when discussing this issue with management, consideration would be given to various issues such as what was deemed proportionate to various budgets, what could and could not be forecasted, and the context of savings requirements. In response to a concern expressed that the underspend reported at the end of the year was greater than reported to Elected Members during the year, and that important decisions were being made on the basis of the reported positon, the Head of Finance (Chief Financial Officer) commented on the significant VAT refund received in the last financial year following approximately 20 years work which had a positive impact on the outturn position, and that an underspend of only 0.76% for the current financial year had been reported to the Cabinet earlier in the day. She noted that a risk based approach was taken, and that unused contingency provision might not be able to be reflected in reports until the year end. She confirmed that it was hoped to reduce variability in reporting throughout the year.

The Committee noted the provisional Annual Audit Plan for year ending 31 March 2025 and timetable for the publication of related documents, including the Annual Audit Report for 2024/25.

INTERNAL AUDIT STRATEGIC PLAN 2025/26 – 2029/30

1163. The Committee considered a report by the Chief Auditor on the Internal Audit Strategic Plan for 2025/26 to 2029/30, which included the proposed Annual Audit Plan for 2025/26 and reference to the indicative number of days to be spent in the following four years based on the risk assessed audit universe which lists all potential audits.

Having summarised the role of Internal Audit and clarified that the function operated in accordance with the revised Public Sector Internal Audit Standards (PSIAS) and within the context of the Internal Audit Charter, the report explained that the Plan had been prepared following consultation with key partners, referred to related risk issues, and clarified, amongst other things, that the consultation process and risk assessment used to prepare the Plan sometimes resulted in new audits being added to the audit universe or being rescheduled to a different year, such as the agency cost and homelessness audits. Some audits had been renamed, such as maximising attendance becoming the sickness absence capability audit.

20 audit days had been included in the Plan for providing an Internal Audit service to the East Renfrewshire Culture and Leisure Trust, with the scope of audits to be carried out to be agreed with the management of the Trust and members of its Finance, Audit and Risk Committee. Resulting audit reports would be issued directly to the Trust's Chief Executive.

Referring to audit needs compared to resources available, the report explained that over the 5-year period of the Plan there was an estimated shortfall of only 23 audit days, which was considered manageable. Audit resources had been assessed as being sufficient to provide evidence based opinions.

In line with good practice, the Plan would be reviewed on a regular basis throughout the year and could be adjusted in response to changes in audit resources or the Council's business, risks, systems and controls. Any such changes would be drawn to the Committee's attention as part of the quarterly reporting mechanism already in place.

The Senior Auditor provided further clarification on how the Plan had been formulated from the audit universe, during which he referred to new audits added to the Plan, related risk issues taken into account, resource assumptions made and the provision made for contingency.

In response to Councillor Morrison, the Senior Auditor clarified how a shortfall of 227 days in 2026 in terms of the audit needs assessment could be addressed taking account of needs over the entire period of the plan and related peaks and troughs, highlighting for example that there was excess capacity in 2028.

The Committee agreed to approve the Internal Audit Strategic Plan for 2025/26 to 2029/30.

CHAIR