

AUDIT COMMITTEE

Minute of Special Meeting of the Audit Committee held virtually via Microsoft Teams on Wednesday 30 June 2021 at 09.00am.

Present: Councillors E Drysdale, S Donaldson, L Barrett, A Forbes (substituting for Councillor H Coates), D Illingworth and X McDade (from item 5).

In Attendance: L Simpson, S Mackenzie, J Beveridge, J Clark, S Crawford, S Walker, A O'Brien, L Ferguson, K Molley, A Brown, M Pasternak, L McGuigan and B Parker (all Corporate and Democratic Services); F Crofts (Housing and Environment); and J Cockburn (Education and Children's Services).

Also in Attendance: M Wilkie and C Windeatt (KPMG)

Apologies: Councillors H Coates and R McCall.

Councillor E Drysdale, Convener, Presiding.

The Convener led discussion on items 1-3, 5-6 and P1 and Vice-Convener on item 4 and 7.

1. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting and apologies were noted above.

2. DECLARATIONS OF INTEREST

Councillor Donaldson declared a non-financial interest in the relevant business of the meeting in his capacity as a Director of Horsecross Arts Ltd.

3. MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 21 JUNE 2021 FOR APPROVAL

The minute of meeting of the Audit Committee of 21 June 2021 was submitted and approved as a correct record.

4. PERTH AND KINROSS COUNCIL INTERIM MANAGEMENT REPORT AND AUDIT STATUS SUMMARY YEAR ENDING 31 MARCH 2021

There was submitted a report by the External Auditor, KPMG (20/119) presenting the Perth and Kinross Council Interim Management Report and Audit Status Summary for the year ending 31 March 2021.

M Wilkie, KPMG, gave a detailed summary of the report.

In response to a question from Councillor Illingworth regarding pensions managed from Dundee, value of assessments and value strategy, M Wilkie advised that this is not considered by Dundee because it focuses on liability within PKC's balance sheet and other assumptions that are specific to PKC.

These assumptions may be different to other employers, for example salary inflation or discount rates.

With regard to pensions, Councillor Donaldson suggested that it would be beneficial to get more information from Audit Scotland and actions taken by PWC, as there is a need for consistency across all local authorities. M Wilkie confirmed that the recommendation KPMG makes would enhance the Council's control environment, but it is unlikely that this would change the cost of our audit.

In response to a question from Councillor Forbes regarding the review of cost-of-service expenditure, C Windeatt advised that under normal circumstances, the Council have a process for reviewing every invoice over £75,000 but due to social restrictions that were introduced in March 2020, this control was temporarily paused. To ensure total assurance, KPMG tested the controls beneath this, and each invoice was monitored throughout this period instead. There were no issues raised that highlighted significant concern.

Councillor Donaldson thanked M Wilkie and C Windeatt for their attendance.

Resolved:

The Interim Management Report and the Audit Status Summary Year Ending 31 March 2020, be noted.

5. STRATEGIC RISK REGISTER

There was submitted a report by Head of Legal and Governance Services (21/110) providing assurance that the Council's Risk Management Framework is adequate and effective and to advise the Committee of the current key strategic risks facing the organisation and how those will be managed.

COUCILLOR MCDADE ENTERED THE MEETING DURING THIS ITEM.

In response to a question from Councillor Illingworth regarding PESTLE and SWOT exercises, L Simpson advised that PESTLE looks at the various subcategories of risk – political, economic, social, technological, legal, and environmental; and SWOT analysis focuses on strength, weaknesses, opportunities, and threats. These are both standard risk management tools.

In response to a question from Councillor Donaldson regarding if our risk register could be used to compare risks with other local authorities and the use of benchmarking, L Simpson advised that the Risk Management Strategy is compliant with good risk management practice and in line with ISO standards. L Simpson added that she would expect areas of commonality across local authorities in terms of key risks such as public protection, climate change, financial risk etc. The assessment and analysis of risks is however particular to the circumstances within each authority, their risk appetite so how they manage and mitigate risks will vary. Accordingly it would be difficult to benchmark in any meaningful way simply comparing risk registers. L Ferguson advised that in preparing the risk register we reviewed 16 out of 32

local authority risk registers and the strategic risks identified by PKC were similar to others.

In response to a question from Councillor Drysdale regarding the nature of 'increased' risk appetite and engagement with elected members, L Simpson advised that our tolerance and appetite for risk will vary depending upon the nature of the risk. She added that if the Council is to rethink how it designs and delivers its services and potentially devolves more control and responsibility to communities, then we will need to be prepared to tolerate greater risk; innovation by its very nature involves a degree of risk taking. She advised officers plan to do workshops with elected members to assess risk the appetite going forward.

In response to a question from Councillor Forbes regarding additional funding and if this could resolve the different areas of risk outlined in Appendix 1, L Simpson advised that additional funding and resources could help mitigate and manage some risks better, in some cases the cause of the risk is outwith the direct control or that effective management /mitigation is dependent upon change in behaviour/ culture etc. She added that if additional resource would better help us mitigate and manage any particular strategic risk, this could be considered as part of the budget process. Solutions to mitigate risk are constantly being assessed and reviewed.

In response to a question from Councillor L Barrett regarding the economic wellbeing strategic risk and the progress of the Economic Wellbeing Plan, L Simpson advised that the Strategic Risk Register is very high level and focuses on how the Economic Wellbeing Plan will be implemented. She added that there will be a risk register attached to the Economic Wellbeing Plan and there will be numerous detailed risk registers under several key strategic risks, which have been identified. These different registers will capture risks at various levels, where officers can control and mitigate. There will be operational, service, workstream and project risks that will feed into the strategic risk register.

In response to a question from Councillor Donaldson regarding the availability of the Strategic Risk Register and other service level registers, L Simpson advised that the Strategic Risk Register will be uploaded to the public portal and officers are looking at a new system which will allow for more accessible reporting and let the public see where different levels of risk are managed. She added that even if a risk is not identified on the Strategic Risk Register, it may still be actioned at Service Level. In response to a question from Councillor Donaldson regarding the event of Flooding in Perth and Kinross and where this would sit, F Crofts advised that there are well established procedures in place to deal with all types of weather events including flooding and other emergencies. These are listed in the Strategic Risk Register as well as the Communities Service Register.

Resolved:

- (i) Contents of Report 21/110, be considered and scrutinised.
- (ii) The current key strategic risks which have been identified through the application of the approved risk management process, be noted.

6. INTERNAL AUDIT STRATEGY & PLAN 2021/22

There was submitted a report by Chief Internal Auditor (21/111) presenting the strategy for the delivery of Internal Audit and the proposed approach for the direction of planned Internal Audit work for 2021/22.

In response to a question from Councillor L Barrett regarding recruitment and 60% time left for Audit planned activity, J Clark advised that the 2021/22 plan considers anticipated recourses for the year. This plan should meet the necessary deadlines, if staff are recruited to the necessary posts as planned. The figure of 60% considers training, mentoring and support, along with other planned activity which takes away from resources to individual assignments.

Members thanked J Clark and her team for all their efforts and hard work.

Resolved:

The strategy and plan for 2021/22 outlined in Report 21/222, be approved.

7. UNAUDITED DRAFT ANNUAL ACCOUNTS 2020/21

There was submitted a report by Head of Finance (21/112) presenting the Council's draft Unaudited Annual Accounts for the financial year 2020/21 in accordance with the Local Authority Accounts (Scotland) Regulations 2014.

In response to a question from Councillor L Barrett regarding a change in opinion by the Chief Internal Auditor since last year's accounts, J Clark confirmed that there has been no substantial change in opinion through recent years and there is reasonable reliance on the set arrangements.

In response to another question from Councillor L Barrett regarding a reduction in government grants and contributions in income and the impact of this, A O'Brien advised that last year £22.8m of housing benefit subsidy was included. Unfortunately, this figure had been missed for year 2020/21 and that's why a reduction is showing. The figure this year is £21.6m of housing benefit subsidy and the accounts will be rectified to show this. Therefore, the total government grants result to £49.6m, with creates around a £5m increase. She added that we have received additional funding from the Scottish Government regarding Early Learning and Childcare Expansion.

In response to a question from Councillor Donaldson regarding Public Private Partnerships and the contract at Pullar House which concludes at the end of 2025, S MacKenzie advised that the assets return to the owners at the end of the contract and therefore the Council will have three options in moving forward; to cease occupation of office accommodation and car park, negotiate the purchase, or renegotiate the lease. A decision will be made based on Council funding and future service delivery. In response to another question from Councillor Donaldson regarding material uncertainty under PFI on valuations, S Walker advised that Finance are working with colleagues in

property around valuations and internal reviews are ongoing. KPMG will be helping and scrutinising the work, to make sure balance sheets are up to date with the correct information.

S Walker advised that there are a couple of presentational changes to be made to the Unaudited Draft Annual Accounts 2020/21. An extra section on management commentary will be added regarding the treatment of grants, which is in line with best practice and gives the user more information. A slightly different version of the accounts will go to KPMG for audit and for signing, but no material changes have been made which effect the core financial statements.

Members thanked colleagues in Finance for the work and preparation of the draft annual accounts throughout these difficult circumstances.

Resolved:

- (i) The Head of Finance be authorised to sign the Unaudited Annual Accounts.
- (ii) It be noted that the unsigned Audited Annual Accounts will be considered by the Audit Committee on 20 September 2021.

IT WAS AGREED THAT THE PUBLIC AND PRESS SHOULD BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEMS IN ORDER TO AVOID THE DISCLOSURE OF INFORMATION WHICH IS EXEMPT IN TERMS OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

P1. PROPERTY SERVICES

(a) Internal Audit Whistleblowing Report

There was submitted a report on a review undertaken by the Chief Internal Auditor (21/113) regarding a protected disclosure made by an employee to the Head of Legal and Governance Services/Monitoring Officer under the Public Interest Disclosure Act 1998. This review is in accordance with the Council's Whistleblowing Policy.

Resolved:

The contents of report 21/113, be noted.

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