

AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2023/24

1. SUMMARY

- 1.1 The purpose of this report is to provide the Chair of the Audit and Scrutiny Committee's (the Committee) annual overview of the Committee's activity during the financial year 2023/24 and a summary of key developments since the commencement of 2024/25. It sets out how the Committee has fulfilled its remit and provides assurances to the Council.

2. RECOMMENDATIONS

- 2.1 Review and endorse the Chair's Annual Report.
- 2.2 Agree that the Chair presents the report to a future meeting of the Council at a date to be confirmed.

3. DETAILS

- 3.1 It is important that the Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2022 Edition which incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police. This sets out CIPFA's view of the role and functions of an Audit Committee. The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.

4. CONCLUSION

- 4.1 The Audit and Scrutiny Committee Annual Report 2023/24, which is appended to this report as Appendix 1, provides assurance to full Council over the activity of the Committee.

5. IMPLICATIONS

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| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Legal: | None |
| 5.4 | HR: | None |
| 5.5 | Fairer Scotland Duty: | None |
| 5.5.1 | Equalities: protected characteristics: | None |
| 5.5.2 | Socio-Economic Duty: | None |

5.5.3	Islands Duty:	None
5.6	Climate Change:	None
5.7	Risk:	None
5.8	Customer Service:	None
5.9	The Rights of the Child (NCRC)	None

For further information please contact Internal Audit (01546 604108)

Paul Macaskill
Chief Internal Auditor
5 September 2024

Appendices:

1. Audit and Scrutiny Committee Chair Annual Report 2023/24

Appendix 1 - Audit and Scrutiny Committee Chair Annual Report 2023/24

Introduction by the Chair of Audit and Scrutiny Committee

This report provides an overview of the Audit and Scrutiny Committee's (the Committee) activity during the financial year 2023/24 and a summary of key developments since the commencement of 2024/25.

In 2023/24 the Committee met quarterly on a hybrid approach with the following as appointed members:

Martin Caldwell (Chair)	Daniel Hampsey	Reeni Kennedy-Boyle
	Graham Hardie	Andrew Vennard
Jim Lynch (Vice Chair)	Dougie McFadzean	

Committee meetings were also attended by appropriate representatives of the Council including the Chief Internal Auditor (CIA) and our appointed External Auditors, Mazars. Other Council Officers attend as and when appropriate including the Chief Executive and the Head of Customer Support Services who attends regularly to advise the Committee on issues relating to performance management.

Concerns have been expressed about the service experienced by the Council from Mazars, as part of their External Audit appointment, and these have been escalated in order that lessons can be learned for future audit years. It is understood that some of the reasons associated with the service provided to the Council included difficulties in recruiting professional audit staff due to sector shortages, and delays in new staff starting when appointed. Whilst these issues have caused significant inconvenience to officers, particularly within Finance, it is important that appropriate service standards are achieved going forward in order to prevent a repeat of such experiences in 2024/25.

In early April of 2024, the Council voted for a change of leadership and subsequently appointed a new Leader and Provost. This also has resulted in previous Committee membership established by the Council to be reset and new appointments to Committees of the Council, including that to the Audit and Scrutiny Committee. This has resulted in only two changes in membership and both individuals received formal training in their respective roles on the Committee.

The Council's Internal Audit section is subject to an independent External Quality Assurance Assessment which is mandatory under the Public Sector Internal Audit standards (PSIAS) every five years. I was pleased to note that the service was deemed compliant in all 14 areas of assessment. This assessment is augmented with annual reviews which are reported to the Committee, and I am again reassured that full compliance has been maintained in 2023/24. It is important that the service provided by Internal Audit maintains the highest standards which helps the Committee in receiving high quality reports for its assurance purposes. Furthermore, this supports the wider governance operating within the Council. I continued to work closely with the CIA and have built up a good and productive relationship which I have no doubt will continue under the Committee's new Chair.

In looking forward to 2024/25 and beyond, significant pressures continue as a result of financial settlements and this has been particularly compounded as a result of

inflationary pressures, together with the risk of unfunded or partly funded pay settlements and the lack of opportunities to focus funding received to areas where resources may be best used due to ring fencing of specific allocated resources which continues to present a complex backdrop within local government. These pressures are likely to remain and will continue to add an element of uncertainty in relation to the overall financial picture affecting the Council. The Council continues to undertake appropriate medium to long term financial planning using a scenario modelling approach which helps to provide Members with a thorough overview of the implications of funding and cost pressures. I am however satisfied that the Council continues to embrace these challenges in a strategic, capable, and productive manner.

Janice Wason Hall – Chairperson

Martin Caldwell – Former Chairperson

1. Audit and Scrutiny Committee's Effectiveness and Impact

- 1.1 The Committee's role is to ensure that the Council's internal control framework and governance arrangements are operating effectively. In order to fulfil this role a range of reports are provided to the Committee during the year. I am satisfied that the frequency, content and detail of reports provided to the Committee, allow myself and fellow members to adequately fulfil this role.
- 1.2 In March 2023 Internal Audit presented their annual audit plan, setting out their approach to the 2023/24 audit of the Council and in June 2023 Mazars outlined their planned approach to their work reflecting their statutory duties and risk-based approach. The respective audit plan and approach were considered by the Committee and accepted.
- 1.3 During 2023/24 the CIA has continued to develop our approach to audit and scrutiny. Particular developments which have furthered the effectiveness of both Internal Audit and the Committee are:
- The continued and successful work of the Counter Fraud Team.
 - The approach to Scrutiny continues to develop and work to complete the 'Fly Tipping' review in 2023/24 was concluded.
 - The CIA engaged with Members of the Committee as part of the planning process for the 2023/24 audit plan.
 - An external assessment has been undertaken during 2022/23 in terms of compliance with the Public Sector Internal Audit Standards (PSIAS) after a portfolio of evidence has been prepared and submitted. This independent assessment identified that the Internal Audit service was in full compliance with all 14 areas of criteria. This was supplemented by the annual self-review in 2023/24 which confirmed that standards have been maintained to these levels.

2. Assurances

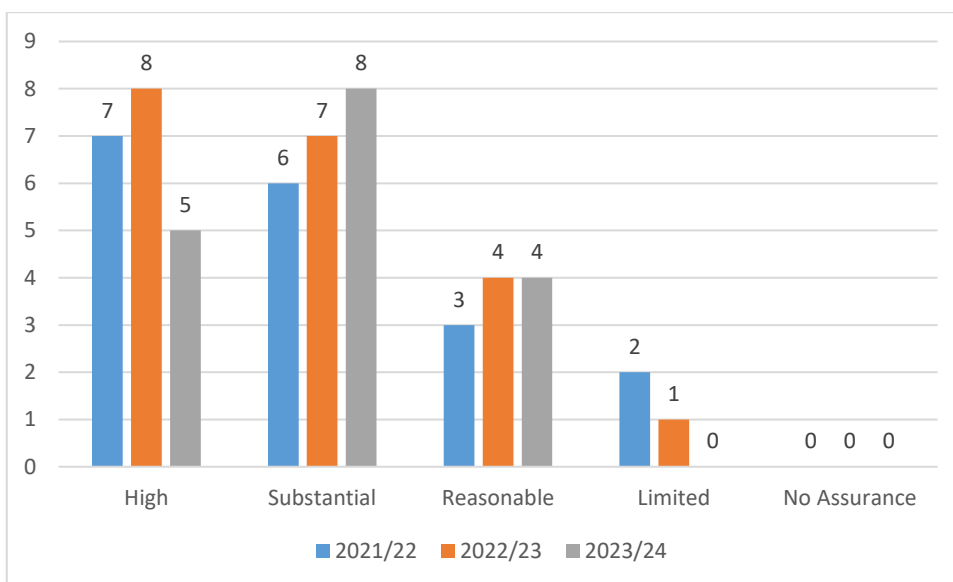
Internal Audit Assurance

- 2.1 Internal Audit is a key source of assurance for both Members and management on the effectiveness of the control environment. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance. I am content that the minor amendments made to the 2023/24 audit plan as a result of unavailability of staff and unscheduled work within the Council will be further risk assessed and considered as part of the future audit planning process. I am content with the assurance provided by the CIA that sufficient work has been undertaken to allow him to provide an opinion on the Council's systems of governance and internal control. Throughout the year, in my opinion, clear assurance judgements are provided, underpinned by an appropriate evidence base and, where appropriate, include sound management advice and guidance.
- 2.2 The Committee has received regular reports and information from the CIA including:
- risk based internal audit annual plan
 - regular progress reports
 - annual report, in line with PSIAS, which provided the CIA's independent annual opinion on the effectiveness of the Council's risk management,

internal control and governance processes.

2.3 Exhibit 1 shows an analysis of assurance opinions provided by internal audit in the three-year period 2020/21 – 2023/24. Whilst there have been minor fluctuations year to year, the important trend identified is a fall in audits issued that have been providing limited assurance. In addition, there has been an increase in the number of audits classified as providing a substantial level of assurance in 2023/24, there were none classified as being limited. For these, and all other audit reports, management have accepted 100% of audit recommendations and action plans have been agreed with a robust follow-up system in place with progress presented to the SMT on a quarterly basis and to the Committee as a standard agenda item.

Exhibit 1 – Audit Assurances (2021/22-2023/24)



2.4 The Committee has a clear role in relation to oversight of the internal audit function; specifically in relation to overseeing its independence, objectivity, performance and professionalism. I am pleased to advise, as Chair of the Committee, that I am satisfied that Internal Audit is effective and activity is undertaken in accordance with relevant standards.

External Audit Assurance

2.5 External Audit is an essential part of the process of accountability and assurance for public funds, providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management. Working closely with Internal Audit, the external audit programme ensures that statutory responsibilities are delivered, without the duplication of audit work. The Council's appointed external auditors are Mazars.

2.6 The audit of the Council's financial statements has been substantially concluded and an 'unqualified' opinion has been provided. Consequently, this should be a basis of assurance which the Committee can take as part of its duty as those charged with governance. Whilst at the time of writing this report the 2022/23 Trust Funds were still not signed off which is disappointing, we expect these to be presented by Mazars to the Committee in due course.

2.7 The Council was subject to a Best Value review in 2019/20 which highlighted that good progress was made by the Council since the last inspection in 2015, specifically the significantly improved relationships amongst elected members and between members and officers and the Council's sound approach to financial planning. All of these points and actions have now been addressed and a final report was prepared and presented to the Audit and Scrutiny Committee in March 2023. This should provide further assurance that these key issues have been addressed by the Council. Further development in performance and reporting has been introduced and a seminar for the Committee has been arranged in order that the latest position has been conveyed to the Committee which has oversight.

3. Risk Management

3.1 The CIA performs an annual strategic risk register assurance mapping exercise which enables the Committee to assess the levels of assurance it can take over the activity undertaken by the Council to manage its strategic risks. This is complemented by the Chief Executive presenting the Strategic Risk Register to the Committee on an annual basis, to allow the Committee to further scrutinise the approaches being taken to manage risk.

3.2 In 2023/24 a review of Risk Management was undertaken and this provided an audit opinion that a high level of assurance can be taken. This is the highest level of audit opinion and should further provide additional assurance on the Risk Management arrangements within the Council.

4. Independence

4.1 To assist in preserving the Committee's independence, measures are in place including:

- the appointment of an independent chair
- observation of the Internal Audit Charter which specifies the independence of the CIA and the wider audit team
- the non-political approach of the committee
- the active involvement of the external auditors
- clear terms of reference aligned to CIPFA's Role of the Audit Committee Guidance

5. Scrutiny

5.1 During 2023/24 the Committee undertook work on completing the Fly-Tipping scrutiny review as part of our scrutiny plan. This report was presented to the Audit and Scrutiny Committee in March 2024. These and previous reports were well received by the Committee and widened the understanding of the complexities and challenges faced by both staff and the community in specific areas and where these reports will help allow continuous improvement as a Council.

5.2 The benefits of scrutiny are twofold; helping to understand, what can often be multifaceted and procedurally complex issues due to legislation but also to help consider ways to improve and develop to make any processes more understandable and/or streamlined where that is at all possible.

5.3 Scrutiny work will continue in 2024/25, it is anticipated that work will focus on the Councils Complaints processes. This review will commence in late

autumn of 2024, allowing the new Committee to settle into its role and build up experience in this area of undertaking scrutiny reviews. Going forward Members may wish to start considering potential areas for scrutiny for 2025/26, it is anticipated that potential areas will be collated towards the end of autumn as part of this process.

6. Counter Fraud Team (CFT)

- 6.1 The Council has an effective CFT having been made permanent after a trial period with both officers having completed the CIPFA (Chartered Institute of Public Finance and Accountancy) Accredited Counter Fraud Specialist Course meaning they are fully accredited counter fraud investigators. This further strengthens the Council's commitment to protecting the public purse.
- 6.2 Since the inception of the CFT, regular reporting to the Audit and Scrutiny Committee takes place, and latterly in June 2024, the CFT reported that proactive and targeted work in this area has resulted in a cumulated £1.12M (ending April 2024) being rebilled and that to date £797K (ending April 2024) has been recovered. The ongoing work of the CFT in both recovery and also in its deterrent effect, sends a strong message that the Council will take all reasonable steps it can to identify error and fraud and also take appropriate action to recover monies that are due. Regular reports are presented to the Committee each quarter in relation to the work of both Internal Audit and the Counter Fraud function.
- 6.3 Local visits throughout Argyll and Bute were undertaken in the year and this will form part of a rolling programme of visits going forward, focusing on maximising the income due to the Council. In addition, the CFT are raising awareness of the Council's zero tolerance to fraud and this will help act as a deterrent to fraud being perpetrated in the first place. I expect further visits to be equally successful and so far in 2024/25 this has proved to be the case. It is pleasing to note that the ongoing work in relation to counter fraud clearly demonstrates the Council both in its commitment to recovering sums of revenue due through error or fraud but also in the wider context of good governance.

7. External Quality Assurance Assessment – Internal Audit

- 7.1 The mandatory Public Sector Internal Audit Standards (PSIAS), published in April 2013 and updated in March 2017, apply to all internal audit service providers in the UK public sector. To supplement the PSIAS, and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a Local Government Application Note, (LGAN) which was updated in 2019. This requires all internal audit providers to have an independent external assessment of these standards in application within their service provision. New Global Standards have been developed which come into effect in 2025 and on the publication of the updated PSIAS, a gap analysis will be undertaken to identify any necessary changes that may be required to be implemented.
- 7.2 An independent report on the Council's Internal Audit Service was prepared and presented to the Audit and Scrutiny Committee in March 2023. It is pleasing and reassuring to note that the assessor found that in all 14 areas of

assessment the Council's Internal Audit Service fully conforms to the standards. The assessor also identified that the team are highly qualified with a training plan in place to address any skills gaps and that they deliver a high-quality service for the Council which is evident by the questionnaires returned after the completion of each review.

- 7.3 This was the first time the Council's Internal Audit Service obtained a fully conforms opinion in all 14 areas of assessment. The independent report demonstrates the importance of having a fully resourced and functioning service which provides assurance to senior management and to those charged with governance responsibilities, specifically, the Audit and Scrutiny Committee. This position should provide substantial assurance to the Council and Members of the Audit and Scrutiny Committee. Annual internal assessments will continue until the next scheduled external assessment in 2028.

8. Looking Forward

- 8.1 I intimated my intention to stand down as Chair after having held this independent position for over a decade and continued to provide cover until a suitable replacement was found. I was pleased to note that the Council has subsequently identified a new independent Chair to lead the Committee, Janice Wason-Hall, who will take over the role commencing financial year 2024/25 and I wish her every success and enjoyment as I have had in the role. I will be pleased to support that transition and assist the new Chair to settle into her new role. It has also been a pleasure to have worked with our Vice Chair, Councillor Jim Lynch and acknowledge the support he has provided to me in this role. I now wish Jim Lynch every success as he leaves the Committee and takes up the role of Leader of the Council.
- 8.2 In 2024/25 and onwards the Committee will consider potential options/topics for scrutiny reviews and as a Committee we will continue to implement and further develop our scrutiny approach.
- 8.3 This focus on continuous improvement is equally applicable to the audit element of the Committee and we will continue to work with the CIA and, where appropriate, our newly appointed External Auditors Mazars, to identify opportunities to further develop the skillset and expertise of both the Committee and the internal audit department to facilitate effective challenge and scrutiny.
- 8.4 The Counter Fraud Team will continue to focus their resources on specific concerns across the local authority area seeking to recover monies owed and due to the Council in accordance with its policies.
- 8.5 The Council continue to provide the audit services to the HSCP and were awarded the contract for a period of three years commencing 1 April 2024. A formal service level agreement is in place to reflect the new contract. In 2023/24, a plan of audit coverage was agreed and presented to their Audit and Risk Committee.
- 8.6 The Internal Audit team are focused, professional and work continues to promote better resilience within the team through the opportunities of professional training schemes and other forms of staff development. This approach fits in well with the Council's programme of 'Growing our Own' in

order that the Council has skilled workforce for the future and these are retained locally where possible.

- 8.7 We will continue to provide updates on progress of the CFT and reports will be presented to the Committee as part of the quarterly and annual reporting of the Internal Audit service.

9. Conclusion

- 9.1 Based on the reports received and reviewed by the Committee, I am in agreement with the CIA's annual audit report which confirms that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in 2023/24. I am satisfied that active monitoring and follow up of recommendations are in place in respect of agreed management actions. This follow up process is further enhanced by the continuous monitoring programme carried out by internal audit which provides ongoing assurance over the Council's core transactional based systems.
- 9.2 The pressures on the Council continue both in the need to balance delivering the services required by our communities but also in the backdrop of challenging financial settlements, economic and socio-demographic changes which are likely to remain for the foreseeable future. The need for a continued strong, independent, resourced and resilient Internal Audit team has never been so important and will be critical going forward in helping the Council to meet these challenges and provide the assurances that are required by the Audit and Scrutiny Committee, senior management and the Council.