

**Financial Audit and Assurance  
Committee minutes**

**2018**

**FINANCIAL AUDIT AND ASSURANCE COMMITTEE**

**MEETING: 26 APRIL 2018**

**REPORT BY: SECRETARY TO THE COMMISSION**

**MINUTE OF PREVIOUS MEETING**

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**Introduction**

1. This paper provides updated information on the previous minute of the Committee.

**Updated information**

2. At its meeting on 8 March 2018, the Commission approved the attached minute of the Committee of 22 February 2018 as a correct record.
3. Arising therefrom, the Commission noted advice from Pauline Weetman:
  - That, in relation to item 5, Commission members would at the forthcoming Commission Strategy Seminar on 13-14 March be considering points raised by external auditors at recent meetings of the Committee on their experiences of the audit.
  - That, in relation to item 6, she was keen to ensure that the report on intelligence considered regularly by the Committee features in the Commission's reporting of its assurance on the quality of audit.

**Conclusion**

4. The Committee is asked to note:
  - The attached minute.
  - Any other updates provided at today's meeting.

**Paul Reilly**  
**Secretary to the Commission**  
**17 April 2018**

## APPENDIX

### **MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 22 FEBRUARY 2018**

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Minutes of the FINANCIAL AUDIT AND  
ASSURANCE COMMITTEE of the ACCOUNTS  
COMMISSION held in the offices of Audit Scotland  
at 102 West Port, Edinburgh, on 22 FEBRUARY  
2018

PRESENT: Pauline Weetman (Chair)  
Sheila Gunn  
Tim McKay  
Geraldine Wooley  
Ronnie Hinds  
Graham Sharp

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit  
and Best Value (PABV)  
Fiona Kordiak, Director, Audit Services (Items 3 and 4)  
Anne MacDonald, Senior Audit Manager, ASG (Items 3 and 4)  
Joanne Brown, Director - Head of Public Sector Assurance Scotland,  
Grant Thornton (Item 5)

#### Item No    Subject

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 30 November 2017
4. Current issues from the local authority audits
5. The auditor perspective: Grant Thornton
6. Intelligence from Ombudsman etc (six-monthly report)
7. Any other business

1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

The following declaration of interest was made:

- Sheila Gunn, in item 4, as a non-executive Director of the Wheatley Group, in relation to references to housing matters.
- Pauline Weetman, in item 4, as a resident of Edinburgh, in relation to references to City of Edinburgh Council.

3. Minutes of meeting of 30 November 2017

The minutes of the meeting of 30 November 2017 were approved as a correct record.

Arising therefrom, the Committee:

- In relation to item 3, second bullet point, noted advice from the Controller of Audit that he would report further on Aberdeen City Council's assessment of risk in relation to its joint venture with Hunchbuzz Limited.

*Action: Controller of Audit*

- In relation to item 4, first bullet point, noted advice from the Secretary that the Commission had agreed the Committee's recommendation that the Chair of the Commission write to council chief executives to stress to them the importance of councils ensuring the highest quality final accounts process, to be done as part of the Commission's communication with councils around issues arising from its endorsement, at its February meeting, of the Controller of Audit's Annual Assurance and Risk Report.
- In relation to item 4, third bullet point, noted advice from the Controller of Audit that he would report further on the arrangements in place around the masterplan for physical developments around Winchburgh, West Lothian.
- In relation to item 4, fourth bullet point, noted advice from the Controller of Audit that he would report further on Scottish Borders Council's review and 'lessons learned' activities around its cancelled waste management facility, including relating to the scoping of the contract.

*Actions: Controller of Audit*

- In relation to item 6, noted advice from the Committee Chair that dialogue with the Appointments and Assurance Team around the content of the first and second quality reports is ongoing.
- In relation to item 9, noted advice from the Director of Audit Services that she would discuss with the Commission Secretary options for considering professional scepticism.

*Action: Controller of Audit*

#### 4. Current issues from the local authority audits

The Committee considered a report by the Controller of Audit advising of emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee agreed:

- To note advice from the Controller of Audit, in response to a query from Pauline Weetman, that the progress of locality committees in City of Edinburgh Council would be considered by the auditor as part of Best Value auditing activity.
- To note advice from the Director of Audit Services, in relation to a query from Geraldine Wooley, that East Lothian and Moray councils had approved their annual budgets.
- To note advice from the Controller of Audit, in response to a query from Geraldine Wooley, that he would continue to monitor levels of Local Authorities Public Sector Network Accreditation.
- That, in response to a query from Ronnie Hinds, the Controller of Audit provide further information on City of Edinburgh Council's proposal to develop an arm's length body, Edinburgh Homes.
- To note advice from the Controller of Audit, in response to a query from Pauline Weetman, that issues around East Renfrewshire Council's management of council tax direct debits would be considered by the local auditor as part of monitoring the Council's response to the Best Value Assurance Report on the Council.
- To note the report on the information considered by Aberdeen City Council when considering a proposal to issue its capital bond, and to continue its interest in the matter, with the Controller of Audit updating the Committee as appropriate.

*Actions: Controller of Audit*

Thereafter, the Committee noted the report.

#### 5. The auditor perspective: Grant Thornton

The Committee considered a paper by the Secretary on the latest in a series of presentations from auditors on the auditor perspective of audit work in the context of the first year's implementation of the new Code of Audit Practice and audit planning guidance.

The Chair welcomed Joanne Brown, Head of Public Sector Assurance Scotland, Grant Thornton, who undertook a presentation in this regard.

During discussion, the Committee agreed to recommend to the Commission that the strengths, challenges and risks set out by Joanne Brown be considered in the development of the approach to audit, including in relation to:

- Sharing and reporting of good and different practice in annual audit conclusions and more widely with other audited bodies.
- Responding to the expectations and requirements of different audited bodies.

- Further developing the reporting of culture and leadership.
- The optimum size of the annual audit report.
- Benchmarking conclusions across public sector annual audit work.
- Alignment of strategic audit priorities, audit dimensions and Best Value requirements.

*Action: Secretary*

Thereafter, the Chair thanked Joanne Brown for her presentation.

6. Intelligence from Ombudsman etc (six-monthly report)

The Committee considered a report by the Secretary to the Commission reporting intelligence on councils, emerging from Audit Scotland correspondence and information reported by the Scottish Public Sector Ombudsman, Commissioner for Ethical Standards in Public Life in Scotland, Standards Commission for Scotland and Scottish Information Commissioner.

During discussion, the Committee agreed:

- That it is assured about audit coverage of issues raised by the public in correspondence with Audit Scotland and the Commission, as set out in the report.
- That this conclusion be reported as part of the Commission's reporting to the public about its assurance around the quality of audit work.

*Action: Secretary and Assistant Director of Appointments and Assurance*

- To note the recent conclusions reported publicly by the Scottish Public Sector Ombudsman (SPSO), Commissioner for Ethical Standards in Public Life in Scotland, Standards Commission for Scotland and Scottish Information Commissioner in relation to their responsibilities, as set out in the report.
- To note that such conclusions are considered by auditors as part of audit planning and risk assessment work.

7. Any other business

The Chair, having advised that there was no business for this item, closed the meeting.

**FINANCIAL AUDIT AND ASSURANCE COMMITTEE**

**MEETING: 23 AUGUST 2018**

**REPORT BY: SECRETARY TO THE COMMISSION**

**MINUTE OF PREVIOUS MEETING**

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**Introduction**

1. This paper provides updated information on the previous minute of the Committee.

**Updated information**

2. At its meeting on 10 May 2018, the Commission approved the attached minute of the Committee of 26 April 2018 as a correct record.

**Conclusion**

3. The Committee is asked to note:
  - The attached minute.
  - Any other updates provided at today's meeting.

**Paul Reilly**  
**Secretary to the Commission**  
**15 August 2018**





## **APPENDIX**

### **MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 26 APRIL 2018**

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Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 102 West Port, Edinburgh on Thursday, 26 April 2018, at 10am.

PRESENT: Pauline Weetman (Chair)  
Sheila Gunn  
Ronnie Hinds  
Tim McKay  
Graham Sharp  
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)  
Fiona Daley, Consultant, Appointments and Assurance Team (Items 8 and 9)  
John Gilchrist, Manager, Appointments and Assurance Team (Items 8 and 9)  
Fiona Kordiak, Director, Audit Services (Items 5 and 7)  
Anne MacDonald, Senior Audit Manager, Audit Services (Item 4)  
Paul O'Brien, Senior Manager, Professional Support Team (Item 5)  
Gordon Smail, Associate Director, Audit Services and PABV (Items 6 and 7)  
Owen Smith, Senior Manager, Appointments and Assurance Team (Items 8 and 9)

#### **Item No    Subject**

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 22 February 2018
4. Current issues from the local authority audits
5. Accounting and auditing developments
6. Auditor guidance: openness and transparency
7. Audit quality in Audit Services Group
8. Audit quality thematic review – prior period errors 2016-17
9. Audit quality monitoring report Q3/Q4 2017/18
10. Any other business

1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

No declarations of interest were made.

3. Minutes of meeting of 22 February 2018

The minutes of the meeting of 22 February 2018 were noted.

Arising therefrom, the Committee:

- In relation to item 3, fourth bullet point, agreed that the Controller of Audit update the Committee at its next meeting, as part of the 'current issues' report, on Scottish Borders Council's review and 'lessons learned' activities around its cancelled waste management facility.

*Action: Controller of Audit*

- In relation to item 3, sixth bullet point, agreed that the Director of Audit Services liaise with the Secretary to arrange a brief session at its next meeting on applying professional scepticism in audit work.

*Action: Director of Audit Services and Secretary*

4. Current issues from the local authority audits

The Committee considered a report by the Controller of Audit advising of emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee agreed:

- To note advice from the Controller of Audit that:
  - Kenneth Lawrie, current Chief Executive of Midlothian Council, had been appointed as the new Chief Executive of Falkirk Council.
  - In response to a query from Geraldine Wooley in relation to fraud risks arising from councils not securing their local authorities public sector network certification, that he and auditors were monitoring the situation.
- In response to a query from various members, that the Controller of Audit provide more information on the arrangements around City of Edinburgh Council's limited liability partnerships in relation to housing.
- In response to a query from Geraldine Wooley, that the Controller of Audit further consider the equalities and diversity implications of redundancies in councils.
- That a report on the latest triennial actuarial valuations of local government pension scheme assets and liabilities be provided at a subsequent meeting of the Committee.
- That a summary of progress of shared services initiatives be provided.

*Actions: Controller of Audit*

Thereafter, the Committee noted the report.

## 5 Accounting and auditing developments

The Committee considered a paper by the Director of Audit Services on the main accounting and auditing developments in the last few months.

During discussion, the Committee:

- Noted advice from the Director of Audit Services that monitoring and reviewing appointed auditors' approach to materiality is an ongoing responsibility of the Appointments and Assurance Team.
- Agreed accordingly to continue a watching brief in this regard.

*Action: Assistant Director, Appointments and Assurance*

- Noted advice from the Director that she would ensure dialogue with the Financial Reporting Council on their monitoring of audit firms, the next opportunity to do so would be through the meeting of the UK Public Audit Forum Technical Directors meeting in June 2018.

*Action: Director of Audit Services*

Thereafter, the Committee noted the report.

## 6. Auditor guidance: openness and transparency

The Committee considered a report by the Associate Director, Audit Services and PABV proposing guidance for auditors on openness and transparency to assist their assessment of governance in the organisations they audit, as part of a wider output that provides an audit view on key issues in openness and transparency.

During discussion, the Committee agreed:

- That, subject to agreement with the Auditor General, the paper be confined to guidance on the features of openness and transparency to be considered by auditors.

*Action: Associate Director, Audit Services and PABV*

- To defer consideration of the need for the Commission to issue its view on openness and transparency.
- That, accordingly, more evidence be gathered on councils' approach to openness and transparency, with this guidance to auditors to this end.

*Action: Controller of Audit*

- Accordingly to recommend to the Commission that the Controller of Audit report on councils' approach to openness and transparency in his Annual Assurance and Risks Report in February 2019.

*Action: Secretary*

- That the guidance be shared with the Committee Chair and Commission Chair and Deputy Chair for comment before being issued to auditors.

*Action: Associate Director, Audit Services and PABV*

## 7. Audit quality in Audit Services Group

The Committee agreed to defer to its next meeting a presentation by the Director of Audit Services on audit quality in Audit Services Group in Audit Scotland.

8. Audit quality thematic review – prior period errors 2016-17

The Committee considered a report by the Assistant Director, Appointments and Assurance on the results of the review of prior period errors included in the 2016-17 financial statements.

During discussion, the Committee noted advice from the Senior Manager, Appointments and Assurance, that he would monitor and report upon trends in this regard over the terms of audit appointments.

Thereafter, the Committee noted the report.

9. Audit quality monitoring report: Q3/Q4 2017/18

The Committee considered a report by the Assistant Director, Appointments and Assurance on the second Audit Quality report following the introduction of the new Audit Quality Framework endorsed by the Accounts Commission in October 2017. The report summarises audit quality activity across all audit work between October 2017 and March 2018.

During discussion, the Committee agreed:

- That in future such reports, the team encourage auditors to consider greater coverage of audits of integration joint boards in internal compliance reviews.
- To state its desire for consistency in external compliance review approaches to financial audit, performance audits and auditing Best Value.
- Further in this regard to note advice from the Appointment and Assurance Team representatives that this desire remains an area for further consideration and development, with the Commission's view sought as appropriate through the Best Value Working Group.
- That future such reports ensure that clarity in the role the Appointments and Assurance Team in monitoring requests for non-audit services, and its interaction with the ethics partner, is provided, as set out in the Audit Quality Framework.
- To note further in this regard that discussions between the Committee Chair, Secretary and Audit Scotland remain ongoing.
- That future such reports contain trend analysis in budgeted versus actual audit fees.
- To note that the Commission will consider at its May meeting the annual audit quality report for endorsement.
- To note that the Commission will include in its annual report a statement on its assurance on the quality of audit work, to be considered at its May meeting.

*Actions: Assistant Director, Appointments and Assurance*

10. Any other business

The Chair, having advised that there was no business for this item, closed the meeting.

**FINANCIAL AUDIT AND ASSURANCE COMMITTEE**

**MEETING: 27 SEPTEMBER 2018**

**REPORT BY: SECRETARY TO THE COMMISSION**

**MINUTE OF PREVIOUS MEETING**

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**Introduction**

1. This paper provides updated information on the previous minute of the Committee.

**Updated information**

2. At its meeting on 13 September 2018, the Commission approved the attached minute of the Committee of 23 August 2018 as a correct record.

**Conclusion**

3. The Committee is asked to note:
  - The attached minute.
  - Any other updates provided at today's meeting.

**Paul Reilly**  
**Secretary to the Commission**  
**18 September 2018**



## APPENDIX

### **MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 23 AUGUST 2018**

---

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of 102 West Port, Edinburgh, on Thursday 23 August 2018, at 10.00am.

PRESENT: Pauline Weetman (Chair)  
Andrew Burns  
Graham Sharp  
Geraldine Wooley  
Ronnie Hinds  
Tim McKay

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV) (Item 5)  
Fiona Kordiak, Director, Audit Services (Items 4, 5 and 6)  
Anne MacDonald, Senior Audit Manager, Audit Services (Item 4)  
Gordon Smail, Audit Director, Audit Services (Items 5 and 6)

#### Item No    Subject

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 26 April 2018
4. Local government pension scheme:
  - (a) Triennial valuation
  - (b) Consultation
5. Audit Quality Report: Improvement actions
6. Audit quality in Audit Services Group
7. Any other business

1. Apologies for absence

It was noted that apologies for absence had been received from Sheila Gunn.

2. Declarations of interest

The following declarations of interest were made:

- Andrew Burns, in item 4, as a member of the Local Government Pension Scheme.
- Ronnie Hinds, in item 4, as a member of the Local Government Pension Scheme.
- Tim McKay, in item 4, as a member of the Local Government Pension Scheme and as former Chair of Lothian Pension Fund Trustees.
- Geraldine Wooley, in item 4, as a member of the Local Government Pension Scheme.

3. Minutes of meeting of 14 June 2018

The minutes of the meeting of 14 June 2018 were noted.

Arising therefrom, in relation to item 6 and in response to a query from Tim McKay, the Committee noted advice from the Secretary that guidance to auditors on openness and transparency had been issued, a copy of which was available on the members' extranet.

4. Local Government pension scheme

The Committee considered a report by the Controller of Audit advising of (a) the outcome of the latest actuarial valuation of the Local Government Pension Scheme (LGPS); and (b) the current consultation by the LGPS Advisory Board on a review of the structure of pension funds.

During discussion, the Committee agreed:

- To note advice from the Director, Audit Services on the updated position with regard to differences between estimated figures provided by actuaries in IAS 19 reports and updated figures included in unaudited accounts.
- To note that further detail on the material impact of the revised accounting valuations on net pension liabilities will be reported to the Committee at its next meeting.
- That longer-term trends in relation to funding levels and contribution rates be provided.

*Action: Controller of Audit*

- To note forthcoming review work by the Government Actuaries Department in relation to valuation consistency and solvency and long-term efficiency of Scotland's 11 local government pension funds, to be reported in, the local government overview pension supplement.
- To note the work to be undertaken by auditors in response to triennial valuations and IAS 19 reports, the progress of which will be reported to the Committee.



- To note that while the consultation is only open to employer and employee organisations, the Chair write to the LGPS Advisory Board advising of the Commission's observations and interest.

*Action: Secretary*

5 Audit Quality Report: Improvement Actions

The Committee considered a paper by the Director of Audit Services and Director of PABV advising of how they have addressed matters arising from 2017/18 quality monitoring and reporting.

Following discussion, the Committee:

- Noted advice from the Directors that detailed action plans were in place to address matters arising from 2017/18 quality monitoring and reporting.
- Noted advice from the Directors on Audit Scotland's response to matters indicated in staff feedback.
- Noted advice from the Secretary in relation to forthcoming reporting by the Appointments and Assurance Team of responses to 2017/18 quality monitoring and reporting.
- Agreed to maintain its interest in progress towards integration of audit, particularly in relation to Best Value.

*Action: Secretary and Director of PABV*

- Noted its interest in gauging the performance of Audit Scotland's Audit Services Group against similar service providers.

*Action: Assistant Director, Appointments and Assurance*

Thereafter, the Committee noted the report.

6. Audit Quality in Audit Services Group

The Committee considered a report by the Director of Audit Services on audit quality in Audit Services Group in Audit Scotland.

Following discussion, the Committee noted the arrangements in place and under further development by Audit Services Group in providing assurance to the Commission on its audit activities.

7. Any other business

The Chair, having advised that there was no business for this item, closed the meeting.

**FINANCIAL AUDIT AND ASSURANCE COMMITTEE**

**MEETING: 22 NOVEMBER 2018**

**REPORT BY: SECRETARY TO THE COMMISSION**

**MINUTE OF PREVIOUS MEETING**

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**Introduction**

1. This paper provides updated information on the previous minute of the Committee.

**Updated information**

2. At its meeting on 11 October 2018, the Commission approved the attached minute as a correct record.

**Conclusion**

3. The Committee is asked to note:
  - The attached minute.
  - Any other updates provided at today's meeting.

**Paul Reilly**  
**Secretary to the Commission**  
**12 November 2018**



**MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE  
OF 27 SEPTEMBER 2018**

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Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Nelson Mandela Place, Glasgow, on Thursday 27 September 2018, at 10.00am.

PRESENT: Pauline Weetman (Chair)  
Andrew Burns  
Graham Sharp  
Geraldine Wooley (from item 5)  
Sheila Gunn  
Tim McKay

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)  
Fiona Kordiak, Director, Audit Services (Item 4)  
Anne MacDonald, Senior Audit Manager, Audit Services (Item 4)  
Elaine Boyd, Associate Director, Audit Quality and Appointments (AQA) (Item 6)  
Fiona Daley, Consultant, Audit Quality and Appointments (Item 6)  
Peter Worsdale, Audit Manager, Accounts Commission Business Support Team

Item No    Subject

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 23 August 2018
4. Current audit issues in councils
5. Intelligence from Ombudsman (six-monthly report)
6. Audit Quality and Appointments progress update 2018/19
7. Any other business

1. Apologies for absence

It was noted that apologies for absence had been received from Ronnie Hinds.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 4, as a non-executive director of the Wheatley Group in relation to social housing issues.
- Pauline Weetman, in item 4, as an Edinburgh resident and local taxpayer in relation to the City of Edinburgh Council social housing item.

3. Minutes of meeting of 23 August 2018

The minutes of the meeting of 23 August 2018 were noted, having previously been approved by the Commission. Arising therefrom, the Committee noted:

- Advice from Graham Sharp in relation to item 4 (last bullet) that he had yet to write to the Local Government Pension Scheme Advisory Board to highlight the Commission's interests.

4. Current audit issues in councils

The Committee considered a report by the Controller of Audit on emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee agreed:

- To consider changes in senior appointments in councils and audited bodies as part of the Commission's engagement strategy.

*Action: Secretary*

- To request a briefing on the National Housing Trust programme to include the business model, risks, governance, financing, and examples of how the model is applied across councils.

*Action: Director of PABV*

- To request that wider workforce issues be included in the organisational restructuring theme (drawing for example from the annual audit).

*Action: Director of PABV*

- To receive more information on the rationale for Shetland Islands Council's purchase of the property company.

*Action: Director of PABV*

- To receive a further information on the South Lanarkshire Community based care hubs. To note that auditors will monitor the audit committee arrangements in South Lanarkshire Council.

*Action: Director of PABV*

5. Intelligence report (six-monthly report)

The Committee considered a paper by the Secretary to the Commission updating intelligence gathered on councils, emerging from Audit Scotland correspondence and information provided by the Scottish Public Sector Ombudsman (SPSO), Commissioner for Ethical Standards in Public Life in Scotland (CESPLS), Standards Commission for Scotland and Scottish Information Commissioner (SIC).

Following discussion, the Committee noted that future intelligence reports will include updates on complaints handling within bodies as reported by SPSO

*Action: Secretary and Director of PABV*

Thereafter, the Committee noted the report.

6. Audit Quality and Appointments progress update 2018/19

The Committee considered a report by the Associate Director of Audit Quality and Appointments (AQA) providing an update on current developments in relation to the audit quality framework, including outlining the timetable for reporting AQA assessment of the quality of audit work commissioned by the Accounts Commission to be delivered in 2018/19. It also provided an update on current developments aimed at strengthening the arrangements for securing audit quality, obtaining evidence and providing assurance to the Committee and the Accounts Commission.

During discussion, the Committee

- Endorsed the timetable for regular reporting to FAAC and PAC as a basis for providing ongoing assurance on audit quality.
- Noted the progress made in developing and strengthening audit quality policies and procedures.
- Endorsed the principles of a new approach to collecting and analysing client feedback, details of which would be discussed further by the Commission.
- Noted the continuing developments and discussions relating to audit quality key performance indicators.
- Noted that the Commission will be consulted further over the proposals currently being developed by AQA, in relation to:
  - Proposed process for escalating quality issues
  - Target setting on audits reviewed and Financial Reporting Council gradings
  - Audit quality standards in performance audit and Best Value auditing work.

*Action: Associate Director, AQA*

7. Any other business

It was agreed that a list of local government appointed auditors, and the bodies involved, be provided to Commission members for their interest.

*Action: Associate Director, AQA*

**FINANCIAL AUDIT AND ASSURANCE COMMITTEE**

**MEETING: 21 FEBRUARY 2019**

**REPORT BY: SECRETARY TO THE COMMISSION**

**MINUTE OF PREVIOUS MEETING**

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**Introduction**

1. This paper provides updated information on the previous minute of the Committee.

**Updated information**

2. At its meeting on 6 December 2018, the Commission approved the attached minute as a correct record.

**Conclusion**

3. The Committee is asked to note:
- The attached minute.
  - Any other updates provided at today's meeting.

**Paul Reilly**  
**Secretary to the Commission**  
**21 February 2019**

**MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE  
OF 22 NOVEMBER 2018**

---

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of 102 West Port, Edinburgh on Thursday 22 November 2018, at 10.00am.

PRESENT: Pauline Weetman (Chair)  
Andrew Burns  
Sheila Gunn  
Ronnie Hinds  
Tim McKay  
Sharon O'Connor  
Graham Sharp  
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)  
Elaine Boyd, Associate Director, Audit Quality and Appointments (AQA) (Items 6 to 8)  
John Gilchrist, Manager, AQA (Items 6 and 7)  
Pat Kenny, Director, Deloitte (Item 5)  
David McConnell, Audit Director, Audit Services (Item 4)  
Anne MacDonald, Senior Audit Manager, Audit Services (Item 4)  
Paul O'Brien, Senior Manager, Professional Support (Item 9)  
Gordon Smail, Audit Director, Audit Services and PABV (Item 10)  
Owen Smith, Senior Manager, AQA (Items 6 and 7)  
Karlyn Watt, Senior Manager, Deloitte (Item 5)

**Item No    Subject**

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 27 September 2018
4. Current audit issues in councils
5. The auditor perspective: Deloitte
6. Audit quality: q1/q2 interim report
7. Audit quality developments
8. Auditing standards: Best Value and performance audits
9. Accounting and auditing update (six-monthly report)
10. Any other business



1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

The following declaration of interest was made:

- Geraldine Wooley, in item 4, as a resident of Fife, in relation to references to devolved school management.

3. Minutes of meeting of 27 September 2018

The minutes of the meeting of 27 September 2018 were noted, having previously been approved as a correct record by the Commission.

4. Current audit issues in councils

The Committee considered a report by the Controller of Audit on emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee:

- In relation to paragraph 5 (Angus Council: management structure), and in response to a query from Geraldine Wooley, agreed that further information be provided on the Council's staff exit costs over the past two years.
- In relation to paragraph 9 (North Ayrshire Council: new chief officer structure), and in response to a query from Pauline Weetman, agreed to note advice from the Controller of Audit that he would include reference to the matter in his Annual Assurance and Risks Report to be considered by the Commission at its January meeting.
- In relation to paragraphs 13 to 16 (Angus, Argyll and Bute, and Clackmannanshire councils: financial statements audit), and in response to a query from Pauline Weetman, agreed that the Controller of Audit continue to monitor the impact of reduced council finance officer capacity on the conduct and cost of the financial statements audit, reporting to the Commission if appropriate.
- In relation to paragraph 34 (Dumfries and Galloway Council: waste management contract), and in response to a query from Ronnie Hinds, noted advice from the Controller of Audit that the matter was being considered as part of the current annual audit.
- Further to a query from Tim McKay, agreed that the Controller of Audit report back on a recent written ruling by the General Teaching Council for Scotland on the conduct of a former executive director of learning and leisure services of North Lanarkshire Council in relation to the false reporting of teacher numbers for 2014.
- Further to a query from Ronnie Hinds, agreed that the Controller of Audit continue to look at ways of reporting financial gaps in more consistently in Best Value Assurance Reports.

*Actions: Controller of Audit*

Following discussion, the Commission noted the report.

## 5 The auditor perspective: Deloitte

The Committee considered a paper by the Secretary introducing the latest in a series of presentations from auditors on the auditor perspective of audit work in the context of the first year's implementation of the new Code of Audit Practice and audit planning guidance.

The Chair welcomed Pat Kenny, Director, and Karlyn Watt, Public Sector Senior Manager, Deloitte, who undertook a presentation in this regard.

During discussion, the Committee agreed:

- To recommend to the Commission that the matters set out by Pat Kenny and Karlyn Watt be considered in its ongoing development of the approach to audit, including in relation to:
  - The scope for the auditor to undertake non-audit services for clients, and the risks associated with the practice and mitigation measures in place in this regard.
  - The experience of Deloitte in working with English councils and how this compares to their experience in Scotland, particularly in relation to:
    - council transformation
    - community engagement, particularly participatory budgeting
    - health and social care integration.
  - The production by Deloitte of an interim audit report on wider audit scope matters earlier in the annual audit reporting process.
  - The perspective gained by auditors across multiple audit appointments and its effect on auditor capacity.
- Agreed that the Chair give further consideration with the Secretary as to how to take forward further such engagement with auditors, with a view to further discussion at its next meeting.

*Action: Secretary*

Thereafter, the Chair thanked Pat Kenny and Karlyn Watt for their presentation.

## 6. Audit quality: q1/q2 interim report

The Committee considered a report by the Associate Director of Audit Quality and Appointments (AQA) presenting the results of work carried out by AQA in monitoring the quality of audit across all audit providers between April 2018 and September 2018.

During discussion, the Committee:

- Agreed that the Associate Director consider how to make clearer in future reports how recommendations are taken forward and progress reported back to the Commission.
- Agreed that future such reports contain more local government sector specific performance information.
- In relation to paragraph 21 (Significant audit risk analysis), agreed to note advice from the Associate Director and Controller of Audit that further

reporting of audit risk is made in the Controller's Annual Assurance and Risks Report, to be considered by the Commission at its January meeting.

- In relation to paragraph 28 (Materiality disclosures), and in response to a query from Pauline Weetman, noted advice from the Associate Director that she was considering how to report this matter in future reports, including the implications of the information on the work of AQA and the assurance to be gained by the Commission in this regard.
- In relation to paragraph 53 (inspection results), and in response to a query from Geraldine Wooley, noted advice from the Associate Director that comparative information on the performance of all audit providers – based upon compliance reviews undertaken independently by the Institute of Chartered Accountants of Scotland - will be reported in her q3/4 report, to be considered by the Committee at its April 2019 meeting.

*Actions: Associate Director, AQA*

Following discussion, the Committee endorsed the report and its conclusions, in particular endorsing the conclusion of the Associate Director, AQA that the quality of audit work is of high quality and requires only limited improvements.

## 7. Audit quality developments

The Committee considered a report by the Associate Director, AQA, summarising the developments in relation to the work of the AQA team.

During discussion, the Committee agreed:

- That the Associate Director consider a number of revisions to the draft audit quality investigation and escalation procedure raised by various members, including:
  - Clarity in relation to the description of the process for audit appointments.
  - Clarity in relation to stage 2 of the investigation and escalation process, particularly in relation to timescales and responsibilities.

*Action: Associate Director, AQA*

- To note advice from the Associate Director that she would report back to the Commission's committees on further work on the draft audit quality investigation and escalation procedure, including consultation with stakeholders.
- To note progress in relation to audit quality key performance indicators, and to note advice from the Associate Director that she would report back to the Commission's committees on further work on the indicators, including consultation with stakeholders.
- To note the timetable of reporting of AQA outputs to the Commission and its committees, to be further discussed and agreed between the Associate Director, AQA and the Commission Secretary.

*Action: Associate Director, AQA  
and Commission Secretary*

- To otherwise note progress of the work of AQA.

8. Auditing standards: Best Value and performance audits

The Committee considered a report by the Directors, Audit Services and PABV advising of progress of development of audit approaches in relation to Best Value and performance audits, in line with outputs from quality review activity related to the 2017/18 audit.

During discussion, the Committee agreed:

- To note advice from the Directors on the reasoning behind a proposal to introduce a common set of standards across audit work, including the application of International Organisation of Supreme Audit Institutions (INTOSAI) standards to performance audit work.
- To note the view of the Associate Director, AQA that the proposal is appropriate to allow her to report on quality assurance to the Commission.
- In relation to the reporting of impact of performance audit, to note the role of audit sponsors in identifying with audit teams throughout the audit the desired impact of the audit work.
- In relation to auditing culture and leadership, agreed to note the desire of the Director of PABV to further discuss the matter with the Commission, in the context of future development of the audit.

*Action: Director of PABV*

- To endorse the proposal.

*Action: Director of Audit Services and PABV*

9. Accounting and auditing update (six-monthly report)

The Committee considered a report by the Director of Audit Services advising of recent accounting and auditing developments affecting the public sector, particularly local government in Scotland.

During discussion, the Committee:

- Noted advice from the Director that a discussion had taken place recently with the Competition and Markets Authority on the benefits of the Scottish public sector model, in which the Chair of the Commission participated.
- Noted advice from the Director that discussions were ongoing between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority Scotland Accounts Advisory Committee (LASAAC) around the applicable date for the application of a new accounting standard (International Financial Reporting Standard 16), currently most likely to be from 1 April 2020.
- Agreed to congratulate Fiona Kordiak, Director of Audit Services, on her appointment as a member of the Audit and Assurance Council of the Financial Reporting Council.

Following discussion, the Commission noted the update.

10. Any other business: David McConnell

The Chair advised that this meeting would be the last meeting attended by David McConnell, Audit Director, who was retiring, having joined the Accounts Commission (and Audit Scotland thereafter) in 1985. The Chair conveyed the thanks

of the Commission to David for his long, conscientious and professional service, and wished him well for the future.

The Chair then having advised that there was no further business for this item, closed the meeting.