

AUDIT AND GOVERNANCE PANEL

Minutes of a hybrid webcast meeting on 26 February 2025 at 10.00 a.m.

Present in County Hall: Councillors Julie Dettbarn (Chair), Alan Lamont, Mary Kilpatrick, Brian McGinley, Cameron Ramsay and George Weir.

Present Remotely: Councillors Kenneth Bell and Chris Cullen.

Attending in County Hall: L. McRoberts, Depute Chief Executive and Director of Education, T. Baulk Chief Financial Officer; W. Carlaw, Service Lead – Democratic Governance; K. Anderson, Assistant Director of Corporate Policy, Strategy and Performance; C. McGhee, Chief Internal Auditor; T. Simpson, Service Lead, Corporate Accounting and Service Finance, D. Love, Corporate Finance Team Co-ordinator, K. Copland, Senior Accountant/Senior Finance Officer (Capital/Treasury), J. Chapman, Committee Services Officer; and E. Moore, Clerical Assistant.

Attending Remotely: C. Cox, Assistant Director of Planning and Development; and L. Reid, Assistant Director of Communities and Transformation.

Opening Remarks.

The Chair

- (1) welcomed everyone to the meeting; and
- (2) outlined the procedures for conducting this meeting and advised that this meeting would be broadcast live.

1. Sederunt and Declarations of Interest.

The Chair called the Sederunt for the meeting and, having called the roll, confirmed that there were no declarations of interest by Members in terms of Council Standing Order No. 17 and the Councillors' Code of Conduct.

2. Call-in from Cabinet.

The Panel noted that there were no call-ins from Cabinet of 18 February 2025.

3. Minutes of Previous Meetings.

The Minutes of the meeting of 29 January 2025 (issued) and were submitted and approved.

4. Action Log and Work Programme.

There was submitted an update of the Action Log and Work Programme for this Panel ([issued](#)).

The Chief Financial Officer advised there was no actions outstanding.

The Panel

Decided: to note the current status of the Action Log and Work Programme.

External Audit Reports

5. Best Value Action Plan – Progress Update – Submit report by the Depute Chief Executive and Director of Education

There was a submitted a report ([issued](#)) of 18 February 2025 by the Assistant Director of Corporate Policy, Strategy and Performance updating Members on the progress toward delivering the Council's Best Value Action Plan.

A member required clarification as to who the Members were that were referred to on Page 16 of the report; and the Assistant Director - Corporate Policy, Strategy and Performance advised that these were all Elected Members referred to.

A Member questioned if it was possible to complete the last unfinished item on Page 23 as it was due to be completed by March 2025; and the Assistant Director - Corporate Policy, Strategy and Performance advised that he was confident it would be completed.

A member queried the use of the word "Implementation" in The Action and Workforce Plan and Implementation as he did not think this word was appropriate and required clarification if what was meant was the work on the Workforce Plan had been completed but the plan itself would not yet have been implemented. The Assistant Director - Corporate Policy, Strategy and Performance stated that was indeed correct and advised that when the Thematic Audit went forward next month, one of the actions would be that a new Workforce Plan would be completed by the end of the year. It would be about the completion of the plan and the implementation would be monitored through Service and Partnerships Performance Plan.

A member stated that he had a difficulty reading a lot of these activities as they were past activities and discreet activities from 2022, 2023 and that there was a lack of narrative. He was keen to know where best value was in the Council, was good progress being made, was it filtering down in the organisation, was the Council ensuring that decisions were being made about school trips or encouraging people to use access and facilities. Also, where was best value in the Council's thinking and where was best value in terms of outcome that was progressing for communities. The Assistant Director - Corporate Policy, Strategy and Performance advised that in terms of the narrative of the report he could see why individuals were disjointed as there were four different reports, actions from a large-scale Audit in 2021 and now three Thematic Audits since then had developed those actions so it probably would not read in the way one action would read and on reflection these could be archived, discussions could be made with the Chair if she was happy for that to occur. In terms of where the Council lay as a Local Authority, he could see a big change in the last 18 months. His impression from the Council Leadership Team was that this was very much at the forefront of their agenda. He could not guarantee this was filtered through the organisation but could certainly be hopeful and optimistic from the language that was used.

The Depute Chief Executive and Director of Education advised that Best Value was an Audit tool that was introduced and created work to allow officers to complete the report and to have a positive report. This was about improvement across the organisation and how the Council used Best Value and the actions of Best Value and the information obtained from Auditors to drive that improvement right across the system.

The Chair commented that it was helpful to have the whole journey in the report and there was a conversation to be had about archiving; she stated that she liked to see people being able to evidence their journey, that was an important thing to do, even though some information was quite dated. She advised that she was happy with the report and was pleased to see the huge amount of improvement activity taking place.

The Panel

Decided: to note the report,

- (1) having scrutinised the content of the Best Value Action Plan update report; and**
- (2) having considered the progress through the narrative set out within Appendix 1.**

Internal Audit Report

6. Internal Audit – Progress Report (Quarter 3 2024/25)

There was a submitted a report ([issued](#)) of 17 February 2025 by the Chief Internal Auditor advising Members of progress of the 2023/24 internal audit plan, progress of the 2024/25 internal audit plan, directorate's progress against implementation of internal audit action plans and the status of the current Quality Assurance and Improvement Action Plan.

A member asked for clarification as to who the four clients were that rated the Internal Audit four out of four; and the Chief Internal Auditor advised that there were two for Housing, one for Property Maintenance and one for ICT. At the end of the year, a questionnaire would be issued to all Directors, Assistant Directors and to Members to obtain feedback on the Audit Service.

A member queried if the client list would include the external bodies that were worked with e.g., HSBC, Highlands and Islands and would they be included or was that out with the Audit; and the Chief Internal Auditor stated that an Audit Plan was delivered for the IJP and the AVJB, that they would receive questionnaires that would feed into their annual report, and this would be reported through their Audit Committees.

A member queried Page 4, item 4.10 which referred to the occurrence of a link change to grant recipient bank details and questioned the final point on that paragraph where it stated 'new procedures for one-time payments to third parties have been developed and are available to all relevant staff. And finance staff work with the bank to secure repayment of the fraudulent payment.'; and did that refer to that particular payment or was it referring to a general process or policy. The Chief Internal Auditor advised that it was both, that Finance did work with the bank and managed to recover that payment, steps were always taken in an attempt to recover any fraudulent payments that went through the bank.

A member advised that the action on Page 25 had a comment requesting the due date be revised and asked for clarification if that revision should be indicated somewhere. He also asked for clarification as to who the request was directed to and if it should not appear on the table. The Chief Internal Auditor advised that the request was directed at herself, but due to the date not being until April 2025, she would have a full discussion with the Service prior to this being agreed; that the latest note was taken directly from Pentana or ID agenda and that was what the Service had input against that action when they were updating the progress. She further advised that contact would be made with them closer to the date, as part of the next update to ascertain why and what the proposed change would be.

A member queried the overdue actions in Appendix 4 and questioned as if consideration was given to the impact on the delay in services due to second and

third extensions; and the Chief Internal Auditor advised that the first consideration would be the level of risk that the original action was, if it was a high risk, if they were exposed to that risk, she would work with them to get that action implemented. The second consideration would be how far off they were and had they been able to put interim arrangements in place. The impact on the service was always considered.

The Chair sought clarification if there were any concerns about the Actions with extensions; and the Chief Internal Auditor stated that she had no concerns and that extensions would not have been granted if she had any concerns, these actions would have been brought to the next Panel to take forward.

The Panel, having thanked officers for their work on this matter,

Decided: to note the report.

Other Governance Reports

7. International Financial Reporting Standard 16 – Update to Accounting for Lease Contracts - Submit report by the Chief Financial Officer

There was submitted a report ([issued](#)) of 17 February 2025 by the Chief Financial Officer informing Members of the upcoming changes to the reporting of leases due to the mandatory implementation of International Financial Reporting Standard (IFRS) 16 and seeking approval to add a new accounting policy in advance of the 2024/25 financial year end.

A member questioned if the changes being described on Page 2, Section 4.1.4, the setting of the de-minimis policy were to achieve a more accurate reflection of asset value; and the Chief Financial Officer advised that getting the value right was an important factor but the implementation of IFRS 16 was aimed at recording assets that the Council had the right to use rather than just getting the actual value right. It was about recording leased assets on the balance sheet that had not previously been recorded as such.

A Member asked if the point about the de-minimis policy meant that items under roughly £6,000 would not be included; and expressed concern that if there were a large number of items about £6,000, then there would a significant amount missing as, if it was a matter of value, that value might not be in the accounts. The Service Lead - Corporate Accounting stated that the reason the Council had a de- minimis was to have a cut-off point and that where an asset was above a certain level, the Council would capitalize, depreciate it and treat it as a Capital Asset. That where the value of the asset was below that level the de-minimis gave the option to account for it through the revenue account rather than capitalizing it, an asset did not get missed, there was a difference in terms of where it was accounted.

A member asked how Appendix 1 worked and how it benefited the Council. The Chief Financial Officer advised that Schools PPP contracts had embedded leases

within them and had been in place for many years. The IFRS16 mandatory changes required the recording of the cost of using that Asset over the life of the Asset rather than the life of the contract and the actual contract payments would remain the same. The Council would record the payments in the bank account as any other payment, but it would be accounted for in a different way by stretching the recording of the payment e.g., if there was a budget of £5 million, it went to the contractor and they received the payment, the Council recorded that £5 million over a longer period in the annual accounts as a technical treatment that reduced costs in that particular year, over the period of the contract and over the life of the asset. Appendix 1 stated that £128 million would be paid under the previous mechanism of recording it, and it still stated £128 million under the new mechanism, it was how it was recorded each year in the annual accounts and in the revenue account, and it brought a financial benefit due to recording less of a cost in a given year.

A member stated that he wished to understand what happened when the payment stopped but was still in the books. The Chief Financial Officer gave an example that if the Council had a budget in the revenue account to pay £5 million each of the next five years for the contract, once the actual contract had ceased, some budget must be retained beyond the end of the contract for a number of years in order for it to be recorded correctly. The Council was not going to have the benefit of a reduced cost in the revenue account once the contract ceased, as a proportion of budget would remain in place for longer in order to match the extended payment timeline.

A member enquired if an example could be given for the lease of transport for the Council, was it treated as a whole and would it be subject to IFRS16. The Corporate Finance Team Co-ordinator advised that the Council currently had operating leases for all of the fleet and all ground maintenance and golf equipment, and these would be dealt with through the new IFRS16 regulations.

By way of an example, if the Council had a current operating lease vehicle valued at say £20,000, it would be above the de-minimis level, therefore it would come under IFRS16, and would now be recorded on the balance sheet as a Right of Use Asset. There were two exemptions for inclusion under IFRS16 which were if a contract was under one year (365 days), it would be still categorized as Revenue and if it was under the de-minimis level then it would still be categorized as Revenue and not be entered on the balance sheet.

The Panel

Decided:

- (1) to note the mandatory implementation of IFRS16 for 2024/25; and**
- (2) to approve the introduction of a new draft IFRS16 Accounting Policies shown in 4.3 of the report.**

8. Treasury Management and Investment Strategy Quarter 3 Update Report 2024/25

There was a submitted report ([issued](#)) of 17 February 2025 by the Chief Financial Officer providing Members with an update on the 2024/25 treasury prudential indicators for the period October-December 2024 (Quarter 3) and providing an update on the latest wider economic position.

A member stated that the report was a very interesting read and enquired as to how the uncertainty of further interest rate cuts and inflation was managed as it is a difficult time to predict what might occur over the next six months, what did that mean for the Council and what was the thinking behind the implications of the report.

The Chief Financial Officer advised that officers relied on advice from external advisors who had a greater detailed understanding of what was happening in the economy and markets. Advice was taken on a daily and weekly basis to minimise risks.

A member commented that it was referenced in Page 12 to the graph on Page 13 being in colour and that it was not in colour. The Chief Financial Officer stated that he would take that on board.

The Chair commented that she was assured by recent developments that the Council's finances remained on track.

The Panel, having scrutinised the contents of the report,

Decided: that the Quarter 3 Update Report be submitted to the next Cabinet meeting on 18 March 2025 for approval.

The meeting ended at 10:59 a.m.