

EAST RENFREWSHIRE COUNCIL12 September 2018Report by Audit and Scrutiny CommitteeANNUAL STATEMENT ON ADEQUACY AND EFFECTIVENESS OF GOVERNANCE,
RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS**PURPOSE OF REPORT**

1. To provide a statement on the adequacy and effectiveness of governance, risk management and internal control systems operating within the Council during 2017/18.

RECOMMENDATION

2. It is recommended that the Council note the internal audit annual statement on the adequacy and effectiveness of governance, risk management and internal control systems operating within the Council during 2017/18.

BACKGROUND

3. The Audit and Scrutiny Committee's terms of reference include a requirement for it to review the control environment and make an annual statement to the Council on its evaluation of internal controls. To assist with the evaluation, Internal Audit is required to provide the Committee with an annual statement on the adequacy and effectiveness of governance, risk management and internal control systems operating within the Council. The statement for 2017/18 was submitted to the Committee on 16 August 2018 as an Appendix to the Internal Audit Annual Report 2017/18.

INTERNAL CONTROL FRAMEWORK

4. As highlighted in the report submitted to the Audit and Scrutiny Committee by the Chief Auditor, in order to ensure the proper conduct of its business, the Council has a responsibility to develop and implement systems of internal control. The presence of an effective internal audit function contributes towards, but is not a substitute for, effective controls and it remains primarily the responsibility of line management to ensure that internal controls are in place and are operating effectively. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedures. Such systems of internal control can provide only reasonable and not absolute assurance against loss.

5. As part of its Standing Orders and in order for the business of the Council to be dealt with in an efficient manner, the Council has in place both a Scheme of Administration and Scheme of Delegated Functions. The former indicates the business to be dealt with by the various bodies of the Council, whilst the latter gives details of the authority delegated to officers by the Council. In addition to this, a comprehensive set of approved Financial Regulations are in place, which ensure that the financial administration of the Council is dealt with in a proper manner. The Council's Financial Regulations incorporate the requirement to present to the Audit and Scrutiny Committee each year an Annual Audit

Report showing the activity of the Internal Audit service and progress achieved against the Internal Audit Plan. An assurance statement on the adequacy and effectiveness of governance, risk management and internal control systems operating within the Council must form part of that report.

6. As commented on by the Chief Auditor in the report she submitted to the Audit and Scrutiny Committee on 16 August, governance, risk management and internal control systems need to be monitored so that management and Members may be sure that they continue to be effective. Monitoring of controls is done at a number of levels, for example, assessment by line management; internal audit and external audit review and subsequent reporting to management of identified weaknesses and recommendations; and monitoring by the Audit and Scrutiny Committee. If monitoring of control is to be effective, then senior management must foster an environment where internal control is the responsibility of all staff.

ANNUAL ASSURANCE STATEMENT

7. As explained in the annual assurance statement prepared, the Chief Auditor's evaluation of the control environment was informed by a number of sources:-

- The audit work undertaken by Internal Audit during the year to 31 March 2018 and material findings since the year end
- The audit work undertaken by Internal Audit in previous years
- The assessment of risk completed during the preparation of the strategic audit plan
- Assessments of the general control environment within individual departments as completed by each director
- Reports issued by the Council's external auditors and other review and inspection agencies
- Knowledge of the Council's governance, risk management and performance monitoring arrangements
- Any other items brought to the attention of internal audit staff by whatever means which may warrant further investigation.

8. The Audit and Scrutiny Committee has received regular progress reports from the Chief Auditor on the work of Internal Audit.

OPINION AND RELATED ISSUES

9. The attached statement (see Appendix A) concludes that it is the opinion of the Chief Auditor, except for the matters described in the qualified opinion paragraph below, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2018.

10. The basis of the qualified opinion is that:-

- There has been a possible failure to award work in compliance with one of the council's framework agreements and this has resulted in additional cost to the council and legal challenge from one of the contractors within the framework.
- Contract standing orders have not been complied with for exemptions and variations.
- Controls to prevent duplicate creditor payments being made were not operating properly resulting in significant overpayments being made.

- Controls over changing of supplier bank details were not operating properly which exposed the Council to the risk of erroneous payments being made.

Each of these areas is described more fully within the Annual Audit Report.

11. The Audit and Scrutiny Committee considered and approved the internal audit annual statement on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2018 on 16 August 2018.

RECOMMENDATION

12. It is recommended that the Council note the internal audit annual statement on the adequacy and effectiveness of governance, risk management and internal control systems operating within the Council during 2017/18.

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Background Papers: Internal Audit Annual Report 2017/18

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INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE FOR 2017/18

As Chief Auditor of East Renfrewshire Council, I am pleased to present my annual statement on the adequacy and effectiveness of the governance, risk management and internal control systems of the Council for the year ended 31 March 2018.

Respective Responsibilities of Management and Internal Audit in relation to Governance, Risk Management and Internal Control

It is the responsibility of the Council's senior management to establish appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of these systems. It is the responsibility of the Chief Auditor to provide an annual overall assessment of the robustness of governance, risk management and internal control.

The Council's Framework of Governance, Risk Management and Internal Controls

The main objectives of the Council's framework of governance, risk management and internal control are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of governance, risk management and internal control.

The work of Internal Audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control in all service areas as a contribution to the proper, economic, efficient and effective use of the Council's resources.

Public Sector Internal Audit Standards (PSIAS) first came into effect on 1 April 2013. For the year under review, the Internal Audit function has been externally assessed as operating in accordance with the Public Sector Internal Audit Standards. An action plan has been developed to further enhance compliance.

The service undertakes an annual programme of work approved by the Audit Committee based on a five year strategic plan. The strategic plan is based on a formal risk based audit needs assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that an appropriate action plan is provided in response to

audit recommendations. Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters arising from internal audit work are reported to the Chief Executive and the Council's Audit and Scrutiny Committee. Follow up work is carried out by Internal Audit to ensure that recommendations previously accepted by management have been implemented. Copies of these reports are circulated to members of the Audit and Scrutiny Committee.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2018 and material findings since the year end
- The audit work undertaken by Internal Audit in previous years
- The assessment of risk completed during the preparation of the strategic audit plan
- Assessments of the general control environment within individual departments as completed by each director
- Reports issued by the Council's external auditors and other review and inspection agencies
- Knowledge of the Council's governance, risk management and performance monitoring arrangements
- Any other items brought to the attention of internal audit staff by whatever means which may warrant further investigation.

Basis of Qualified Opinion Paragraph

There has been a possible failure to award work in compliance with one of the council's framework agreements and this has resulted in additional cost to the council and legal challenge from one of the contractors within the framework.

Contract standing orders have not been complied with for exemptions and variations.

Controls to prevent duplicate creditor payments being made were not operating properly resulting in significant overpayments being made.

Controls over changing of supplier bank details were not operating properly which exposed the Council to the risk of erroneous payments being made.

Each of these areas are described more fully within the Annual Audit Report.

Opinion

It is my opinion, except for the matters described in the qualified opinion paragraph above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2018.

Michelle Blair FCA
Chief Auditor

1 August 2018