

EAST RENFREWSHIRE COUNCIL26 June 2019Report 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 the governance, risk management and internal control systems operating within the Council during 2018/19.

RECOMMENDATION

2. It is recommended that the Council note the internal audit annual statement on the adequacy and effectiveness of the governance, risk management and internal control systems of the Council for the year ending 31 March 2019.

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 the governance, risk management and internal control systems operating within the Council. The statement for the year ending 31 March 2019 was submitted to the Committee on 20 June 2019 as an Appendix to the Internal Audit Annual Report 2018/19.

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 the 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 20 June, 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.

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE FOR 2018/19

7. As explained in the Annual Statement of Assurance for 2018/19, 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 2019 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

9. The attached Annual Statement of Assurance for 2018/19 (see Appendix A) concludes that it is the opinion of the Chief Auditor 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 2019.

10. 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 2019 on 20 June 2019.

RECOMMENDATION

11. It is recommended that the Council note the internal audit annual statement on the adequacy and effectiveness of the governance, risk management and internal control systems of the Council for the year ending 31 March 2019.

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Background Papers: Internal Audit Annual Report 2018/19

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE FOR 2018/19

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 2019.

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.

During 2018/19, the internal audit service operated in accordance with the Public Sector Internal Audit Standards (PSIAS). A self-assessment was carried out and submitted to the audit and scrutiny committee. This review concluded that the internal audit service continues to operate in compliance with the Public Sector Internal Audit Standards. A quality assurance improvement plan has been developed to further enhance compliance and is included within the appendices. External audit have also considered the work of internal audit and did not raise any issues.

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 2019 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.

Opinion

It is my opinion 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 2019.

Michelle Blair FCA
Chief Auditor

5 June 2019