

## **AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2017/18**

### **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 2017/18 and a summary of key developments since the commencement of 2018/19.

I am pleased to report that the Committee continued to focus its efforts on effectively discharging its functions and responsibilities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of 2004 entitled "Audit and Scrutiny Committee principles in local authorities in Scotland: a guidance note".

The Committee met quarterly throughout the financial year with the meetings attended by appropriate representatives of the Council including the Head of Strategic Finance and the Chief Internal Auditor (CIA). Audit Scotland also attend as do other Council Officers as and when requested including the Head of Improvement and HR and the Chief Executive at the June 2018 committee.

In 2017/18, the following Councillors served on the Committee at various points during the year; Jim Findlay, George Freeman, Sir Jamie McGrigor, Julie McKenzie, Alan Reid, Sandy Taylor and Andrew Vennard. In 2018/19 we also welcomed Richard Trail to the Committee.

In respect of the Chair and Vice Chair posts I continued in the role of Chair with Sheila Hill as Vice Chair until she retired in late 2017. I would like to record my appreciation to Sheila for the invaluable assistance she provided to myself as Chair and the wider Committee during her time as Vice Chair. Sandy Taylor has replaced Sheila as Vice Chair bringing to the Committee a wealth of valuable and relevant experience gathered during his time formerly as a council officer and more latterly as an elected member including being a sitting member of the previous Performance & Scrutiny Committee.

In October 2017 we appointed Laurence Slavin as the Council's new CIA replacing Kevin Anderson who has left to take up the post of General Manager at Live Argyll. I'd like to record my appreciation to Kevin for all his good work as the CIA and am pleased to say that the internal audit team continues to develop with Laurence introducing a number of new processes and procedures to further strengthen the team. One welcome development has been the attendance of members of Laurence's team at Committee meetings.

In looking forward to 2018/19 and beyond, there is great uncertainty facing the Council. In particular the UK's withdrawal from the European Union, which has unclear implications for the Council, and all Scotland's public bodies. The Committee would be looking for engagement with scrutiny partners, including the Accounts Commission, to help tackle the risks associated with this uncertainty in a collaborative and Scotland wide basis.

In addition the current pace of public sector reform and on-going integration of Health and Social Care within an overall context of reductions in public spending mean the importance of an effective Committee remains critical. Along with my fellow members I look forward to meeting the challenges ahead, building on a strong audit platform and further developing the Scrutiny element of the committee whilst continuing to add value to the Council's governance framework.

Martin Caldwell - Chairperson

Sandy Taylor - Vice Chairperson

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## **1. Terms of Reference**

- 1.1 The Committee's terms of reference are to promote good internal control, financial and risk management, governance and performance management. This provides reasonable assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.
- 1.2 In addition the Committee, in carrying out its scrutiny function, will take a discursive, collegiate and non-political approach to carry out methodological consideration of a wide range of evidence and perspectives, with the aim of providing viable and well-evidenced solutions to support service delivery and policy development.

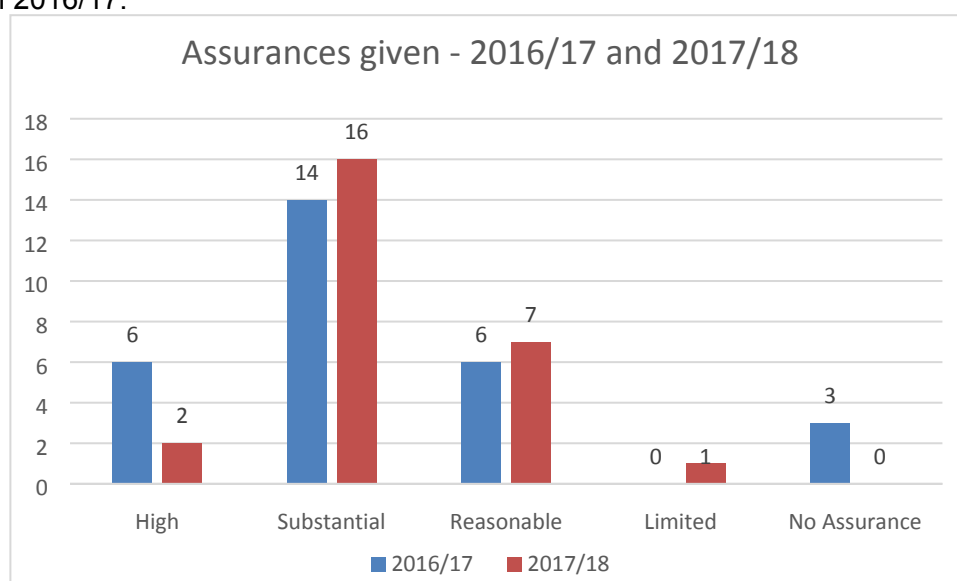
## **2. Audit and Scrutiny Committee's Effectiveness and Impact**

- 2.1 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 undertake the requirements of our terms of reference.
- 2.2 The Committee has the right to request updates after reviewing submitted reports. This approach affords the Committee the opportunity to ask key questions directly and receive assurances. In addition, the Committee can routinely challenge management when agreed audit action plan implementation dates are missed although it should be noted that internal audit have a robust follow up process with updates reported to the Committee as a standard agenda item. Informal protocols are also in place whereby Management can be requested to attend committee where assurance level provided is limited or below. This has proved very useful in developing positive relationships with management whilst ensuring independence is maintained. Management's co-operation and engagement is very much appreciated.
- 2.3 In March 2017 both Audit Scotland and Internal Audit presented their annual audit plans setting out their respective approaches to the 2017/18 audit of the Council, reflecting their statutory duties and risk based approach. The audit plans were considered by the Committee and accepted.
- 2.4 Since his appointment in October 2017 the CIA has introduced a number of changes and developed appropriate governance to further strengthen effectiveness. In particular:
  - introduced new working practices, reporting templates and a revised internal audit charter and manual
  - introduced quarterly internal audit development days to ensure the team continues to develop the necessary skills and knowledge to carry out their role effectively
  - audit reports are presented to the Committee in their entirety, replacing the previous process to remove recommendations classified as 'low' priority
  - audit reports are presented to the SMT
  - revised the approach to continuous monitoring to provide annual assurance over approximately 175 controls covering fifteen council processes
  - introduced a new Scrutiny Framework and Scrutiny Manual to provide governance over the roll out of scrutiny during 2018/19.

## **3. Assurances**

## Internal Audit Assurance

- 3.1 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. The Committee is pleased to note the Internal Audit team has completed the agreed 2017/18 internal audit plan within the agreed timescale. Reports are deemed to be accurate, objective, concise, constructive, complete and timely. In my opinion clear assurance judgements are provided, underpinned by an appropriate evidence base and, where appropriate, include sound management advice and guidance. We will continue to monitor internal audit performance, progress and resources to ensure they are able to meet these requirements.
- 3.2 Internal Audit were subject to an external assessment in 2018 to assess whether they are complying fully with the Public Sector Internal Audit Standards (PSIAS). The review concluded that internal audit demonstrated overall compliance with the standards and demonstrated many areas of strong practice. It also highlighted four recommendations for potential improvement which the CIA has confirmed are being progressed. This assessment provides the Committee with a valuable independent endorsement of the quality and effectiveness of the work being delivered by the internal audit team.
- 3.3 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
- 3.4 The chart below shows an analysis of assurance opinions provided by internal audit in 2016/17 and 2017/18. It can be seen that, whilst the number of audits classified as providing a high level of assurance has reduced in 2017/18 this is balanced by the fact that no audits were classified as providing 'no assurance' in comparison to three in 2016/17.



- 3.5 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. This view is supported by the external assessment referenced at paragraph 3.2 and commentary in Audit Scotland's 2017/18 annual audit report which confirms that internal audit operates in accordance with PSIAS and has sound documentation standards and reporting procedures.

### **External Audit Assurance**

- 3.6 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 external auditors are Audit Scotland.
- 3.7 Assurance was received from Audit Scotland that, for 2017/18, the Council's financial statements presented a true and fair view in and were properly prepared.
- 3.8 External Audit is required to report by exception on a number of areas in relation to their audit, namely accounting records, statement of governance and control, availability of information and explanation and failure to achieve a prescribed financial objective. External Audit reported no exceptions in respect of these matters for 2017/18. External Audit did highlight some issues encountered due to the absence of key finance officers during the audit of the Council's financial statements. Assurances have been provided that this is being addressed through the ongoing restructure of the Strategic Finance service.

### **Risk Management**

- 3.9 It is the role of the Committee to gain assurance on the adequacy of the Council's risk management arrangements. In March 2018 the Head of Strategic Finance presented her Risk Management Overview to the Committee which confirmed that the CIA had identified areas where these arrangements could be strengthened and that the Council had taken, and were continuing to take, actions to address these areas. Key improvements that have been implemented are:
- a revised risk management manual has been approved by the Policy and Resources Committee
  - revised risk registers have been adopted for the strategic risk register and operational risk registers
  - risks, where practical, are aligned to service plan challenges
  - key actions, with timescales, for risks to be 'treated' are documented
  - all red risks identified in operational risk registers are escalated to the SMT for consideration
- 3.10 I am pleased to report that Audit Scotland, in their 2017/18 annual audit report, have confirmed that *'the changes effected represent an enhancement to the Council's risk management process'*.
- 3.11 In June 2018 the Chief Executive also submitted a report to the Committee on the strategic risk register and, more generally, on the Council's risk management arrangements.

### **Governance & Internal Control**

3.12 In accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009, the completed Local Code of Governance 2016/17, together with an action plan was presented and reviewed at the June 2017 Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and noted for inclusion in the Annual Accounts, subject to the completion of Audit Scotland's audit of the draft 2017/18 financial statements.

3.13 The draft Statement of Governance & Internal Control is informed by the:

- work of officers within the Council;
- work and conclusions of internal and external audit
- statements of governance or internal control provided by external bodies
- external review and inspection reports
- recommendations from the Audit and Scrutiny Committee .

#### **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. Training and Development**

5.1 As part of its ongoing development the Committee held a development day in November 2017. In the morning the members heard from the newly appointed CIA, the Committee Vice Chair and Audit Scotland on the roles of internal and external audit, risk management, and the characteristics of an effective audit committee. In the afternoon we focused on the committee's new role as a scrutiny function with the CIA providing a scrutiny overview presentation followed by an open discussion on the future scrutiny role of the committee.

5.2 In August 2018, as part of the ongoing development of scrutiny, and in advance of the commencement of the first scrutiny review in the 2018/19 scrutiny plan, committee members, internal audit and other relevant officers attended a two day scrutiny training session held in the Helensburgh Civic Centre.

#### **6. Looking Forward**

6.1 The Committee is beginning to roll out the Council's revised approach to scrutiny supported by the scrutiny framework, including a prioritisation process, and scrutiny manual approved by the Committee in March 2018 and June 2018 respectively. Two topics have been selected for scrutiny in 2018/19 based on applying the prioritisation process to potential topics suggested by elected members and senior officers.

6.2 After the 2018/19 Scrutiny Plan is completed the Committee will take the opportunity to reflect upon the process adopted and seek feedback from officers and elected members to identify lessons learned which would lead to improvements in future scrutiny work and inform the 2019/10 Scrutiny Plan.

6.3 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 colleagues in Audit Scotland, 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.

- 6.4 More widely the Council face a period of great uncertainty due to the potential implications of the UK's withdrawal from the European Union. This gives rise to a need to consider our current understanding of the potential risks and implications to the Council in the event that the UK exits the EU in March 2019 without any transition arrangements or certainty about future arrangements (i.e. a 'No Deal' exit). Areas for consideration may include:
- workforce
  - loss of EU funding
  - access to markets and suppliers
  - public procurement
  - impact on interest rates and inflation levels.
- 6.5 The UK Government has committed to releasing a series of advisory notes to businesses and public bodies on a wide range of topics about actions to be taken to mitigate the risks arising from a 'No Deal'. These are to be made available between late August and the end of September 2018. Where appropriate, these guidance notes will need to be considered in detail to identify what, if any, actions may be required.
- 6.6 In the medium to longer term the Committee and the wider Council need to reflect on the extent to which there is sufficient intelligence and information to consider the longer term macro-economic impacts of Brexit on council funding and demand on services. This needs to be considered within the context of how much of this is 'unknown' and with consideration to the extent that it is within the Council's power to do anything constructive to mitigate the potential impacts.

## **7. Conclusion**

- 7.1 Based on the reports received and reviewed by the Committee it is the opinion of the Committee that an overall substantial assurance opinion can be placed upon the adequacy and effectiveness of the Council's internal control system in 2017/18. I am satisfied that active monitoring and follow up of recommendations is in place in respect of agreed management action. 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.