

**AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2018/19**

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**1. EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to provide the Chair of the Audit and Scrutiny Committee's (the Committee) annual overview of the Committee's activity during the financial year 2018/19 and a summary of key developments since the commencement of 2019/20. It sets out how the Committee has fulfilled its remit and provides assurances to the Council.

**2. RECOMMENDATIONS**

- 2.1 Review and endorse the Chair's Annual Report.

**3. DETAIL**

- 3.1 It is important that the Committee fully complies with best practice guidance on audit committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition which incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police. This sets out CIPFA's view of the role and functions of an Audit Committee. The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.

#### **4. CONCLUSION**

- 4.1 The Audit and Scrutiny Committee Annual Report 2018/19, which is appended to this report as Appendix 1, provides assurance to full Council over the activity of the Committee.

#### **5. IMPLICATIONS**

- 5.1 Policy - None
- 5.2 Financial - None
- 5.3 Legal - None
- 5.4 HR - None
- 5.5 Fairer Scotland Duty - None
  - 5.5.1 Equalities – protected characteristics – none
  - 5.5.2 Socio-economic duty – None
  - 5.5.3 Islands - None
- 5.6 Risk – None
- 5.7 Customer Service

**Martin Caldwell**  
**Chair of Audit and Scrutiny Committee**  
**28 November 2019**

**For further information contact:**

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## **APPENDIX 1 - AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2018/19**

### **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 2018/19 and a summary of key developments since the commencement of 2019/20.

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 appropriate including the Chief Executive and Executive Director of Development & Infrastructure at the June 2019 committee. The Head of Improvement and HR also attends regularly to advise the Committee on issues relating to performance management.

In 2018/19, the following Councillors served on the Committee; Jim Findlay, George Freeman, Sir Jamie McGrigor, Alan Reid, Sandy Taylor, Richard Trail and Andrew Vennard.

I continued in the role of Chair and Sandy Taylor continued in the role of Vice Chair. I would like to record my appreciation to Sandy for the support he has provided over the year, in particular putting his experience as a member of the previous Performance & Scrutiny Committee to valuable use as we rolled out our new approach to scrutiny.

In April 2019 we welcomed Annemarie McLean to the Internal Audit team to replace Abbie Macalister over a phased period with Abbie moving into role as a qualified accountant within the wider finance team. I'd like to wish Abbie the best of luck in her new post. Our CIA, supported by the audit team, has continued to develop our approach to both audit and scrutiny and I am pleased to say that, during 2018/19, the team was externally assessed as demonstrating overall compliance with the Public Sector Internal Audit Standards (PSIAS) with the assessor confirming they evidenced many areas of strong practice.

In looking forward to 2019/20 and beyond, there continues to be great uncertainty facing the Council due to the UK's impending withdrawal from the European Union. I am pleased to see the Council taking clear and positive action to prepare for this through the establishment and active work of the EU Withdrawal Tactical Group to create and manage a specific risk register and action plan.

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

24 September 2019

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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 2018 both Audit Scotland and Internal Audit presented their annual audit plans setting out their respective approaches to the 2018/19 audit of the Council, reflecting their statutory duties and risk based approach. The audit plans were considered by the Committee and accepted.
- 2.4 During 2018/19 the CIA has continued to develop our approach to audit and scrutiny following on from changes he introduced in 2017/18 after his appointment in October 2017. Particular developments in the past 12 months which have furthered the effectiveness of both Internal Audit and the Committee are:
- implemented the new approach to scrutiny which culminated in the first scrutiny review being reported to the June 2019 Committee and the second to the September 2019 Committee
  - created a new audit universe to inform the development of the annual audit plan
  - further enhanced team development days to include presentations from other council officers to build the team's understanding of service key risks and issues
  - established a working group with four other councils to discuss audit

- approaches and share good practice and resources
- implemented the improvements identified in the team's external quality assessment.

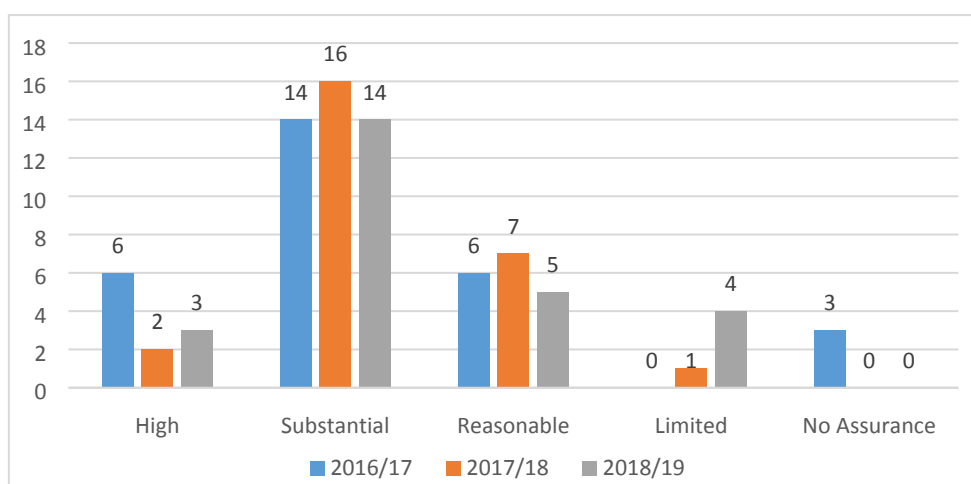
### **3. Assurances**

#### **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 2018/19 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 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 all of which have been implemented along with a number of other improvements which the CIA reports to the Committee. This provides the Committee with a valuable independent endorsement of the quality and effectiveness of the work being delivered by the internal audit team. The ongoing reporting of the team's quality assurance improvement programme evidences the team's commitment to continuous improvement.
- 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 Exhibit 1 shows an analysis of assurance opinions provided by internal audit in the three year period 2016/17 – 2018/19. It can be seen that there has been an increase in the number of audits classified as providing a limited level of assurance in 2018/19. These reports focused on VAT, Off-Payroll Working, School Fund Governance and Waste Management. For these, and all other audit reports, management have accepted 100% of audit recommendations and action plans have been agreed with a robust follow-up system in place with progress presented to the SMT on a monthly basis and to the Committee as a standard agenda item.



Exhibit 1 – Audit Assurances (2016/17-2018/19)



- 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 2018/19 annual audit report which confirms that internal audit operates in accordance with the PSIAS.

### 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 2018/19, 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 2018/19. External Audit also confirmed that the working papers provided with the unaudited accounts were of a satisfactory standard and finance staff provided good support to the audit team during the audit which helped ensure the audit of the annual accounts ran smoothly.

### 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 December 2018 the Committee considered a risk management audit presented by the CIA which confirmed that substantial assurance could be taken over the Council’s risk management arrangements. It did highlight one high priority issue in relation to the governance arrangements for

the management of social care operational risks including responsibilities and the arrangements for regular review and updating of risks.

- 3.10 In June 2019 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**

- 3.11 In accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009, the completed Local Code of Governance 2018/19 together with an action plan was presented and reviewed at the June 2019 Committee meeting. The draft Annual Governance Statement was also reviewed and noted for inclusion in the Annual Accounts, subject to the completion of Audit Scotland's audit of the draft 2018/19 financial statements.

- 3.12 The draft Annual Governance Statement is informed by the:

- work of officers within the Council;
- work and conclusions of internal and external audit
- external review and inspection reports
- recommendations from the 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 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. In a more general sense the members of the Committee have been developing their scrutiny skills through active involvement in two scrutiny reviews. Panel members for the first two scrutiny reviews in the 2019/20 annual scrutiny plan have been agreed. The completion of these reviews will mean that all Committee members will have sat on at least one scrutiny panel, with some having completed their second.

- 5.2 In March 2019 the Committee held a development session which was led by the Head of Improvement and HR and focused on the council's developing approach to performance reporting. A further development session was held in June 2019 which was focused on the Local Government Benchmarking Framework.

- 5.3 The audit team's development is managed by the CIA through a combination of the Council's performance review and development process and on the job training including coaching, mentoring, shadowing and the team development sessions referenced at paragraph 2.4.

## **6. Looking Forward**

- 6.1 The Committee will continue to implement and further develop the Council's scrutiny approach. The CIA is to present a 'Lessons Learned' report to the Committee in March 2020 which will highlight lessons learnt from the first two scrutiny reviews and highlight areas for improvement. This will allow the Committee to reflect upon the process adopted and seek feedback from officers, elected members and external witnesses to identify which will lead to improvements in future scrutiny work
- 6.2 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.

## **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 2018/19. 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.