

EAST RENFREWSHIRE COUNCIL  
AUDIT AND SCRUTINY COMMITTEE

21 August 2014

Report by Clerk

LOCAL EXTERNAL AUDIT REPORT ON KEY CONTROLS

**PURPOSE OF REPORT**

1. To update the Committee on the publication of a local External Audit report on *Key Controls*.

**RECOMMENDATION**

2. It is recommended that the Committee considers the report.

**PUBLICATION OF LOCAL EXTERNAL AUDIT REPORTS**

3. The local External Audit report on *Key Controls*, as published in May 2014, has already been circulated to all Audit and Scrutiny Committee Members. The Members of the Committee who are leading on the review of this particular report are Councillor Wallace and Councillor Grant.

**EXTERNAL AUDIT REPORT ON KEY CONTROLS**

4. The External Audit report clarifies that the key controls operating within the financial systems of the Council have been subjected to testing by the Auditor to ensure that they are operating satisfactorily. When looking at such systems, assurances are sought that the audited body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements and effective management of assets and interests; has systems of internal control which provide an adequate means of preventing and detecting material misstatement, error, fraud or corruption; and complies with established policies, procedures, laws and regulations.

5. Planned controls assurance was sought on eight key financial systems, including the general ledger, payroll, treasury management and council tax systems. The review involved identifying and assessing risks inherent in the systems and assessing the adequacy of procedures and controls in place to address those risks.

6. Overall the systems of control were reported to be operating effectively, with testing not identifying any significant control weaknesses. However a few control weaknesses were identified. One of the two appendices to the report identifies key financial systems which support the preparation of the financial statements and comments on almost sixty associated controls on which related comments are provided. The conclusion reached on the large majority of those associated controls is that the position is satisfactory. In the few cases where weaknesses were identified, the External Auditor has noted the impact that this has on the planned financial statements audit, listing these in a further Appendix.

7. As specified in the report, the main weaknesses identified were associated with accounts receivable (a duplicate payment), accounts payable (authorised signatory issues), council tax (a voids issue) and housing rents (a housing benefit and rent accounting reconciliation matter). The issues identified on these are listed together with the associated client responses and comments on the audit impact.

8. The report clarifies that it is management's responsibility to decide on the extent of the internal control systems appropriate to the Council and that weaknesses identified represent those that have come to the External Auditor's attention during normal audit work. Therefore they are not necessarily all of the weaknesses that may exist.

## **INTERNAL AUDIT**

9. The report reiterates that where it can be demonstrated that the Internal Audit objectives are similar to those of External Audit, findings and results of Internal Audit exercises can be considered when determining the nature and extent of planned External Audit coverage. This ensures that audit resources are used efficiently and that work is not unnecessarily duplicated.

10. As reported in June when the Committee noted a report on the publication of a local External Audit report on the *2013/14 Review of the Adequacy of Internal Audit*, eleven issues are itemised (including payroll; ordering and certification; asset management; members' expenses; and inventories) where formal reliance on the work of Internal Audit was planned for. A further three issues are listed (which include the review of statutory performance indicators) where External Audit intend to obtain assurances from Internal Audit's work. The External Auditor's report explains that the review of the 2013/14 Internal Audit Plan is substantially complete and found Internal Audit work to be of a good quality, the detailed review having enabled Audit Scotland to place reliance on or obtain assurances from Internal Audit's work on the areas referred to above.

## **ARRANGEMENTS FOR PREVENTION AND DETECTION OF FRAUD**

11. The report confirms that the Council participates in the National Fraud Initiative in Scotland which is led by Audit Scotland and compares information held by associated public bodies and on different financial systems to identify and investigate circumstances (matches) that may suggest the existence of fraud or error. It also reports that the last matching exercise was based on 2012/13 data. A review by the External Auditor in December 2013 of the Council's work on following up matches is reported to have confirmed that there are good arrangements in place to investigate issues.

## **RECOMMENDATION**

12. It is recommended that the Committee considers the report.

Local Government (Access to Information) Act 1985

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Background Papers: Audit Scotland Report "East Renfrewshire Council Key Controls Report" (May 2014)