

## **Annual Report by Audit Committee for the Financial Year 2007/2008**

### **Background**

The Code of Practice for Internal Audit in Local Government (the Code) issued by CIPFA in 2000 sets out good practice in delivering internal audit services. The Code was revised in 2006 and Grant Thornton UK LLP, in May 2007 carried out a Code compliance review resulting in a report. One resultant recommendation required that the Audit Committee produce an Annual Report to the Council. This report would summarise the work of the Audit Committee during the year and outline its view of the Council's internal control framework, risk management and governance arrangements.

The Head of Strategic Finance submitted a paper to the Audit Committee on 28 June 2007 recommending that the committee prepare an Annual Report to the Council. The Committee decided that it would prepare an Annual Report covering the financial year ended 31 March 2008.

### **Terms of Reference of the Audit Committee**

#### General Functions

1. To promote internal controls, financial risk and governance and otherwise, in order to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.
2. To report annually to the Council on the internal control environment.
3. To develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability.
4. To promote good financial practice within the Council.
5. To agree the internal audit strategy and plan.
6. To receive internal audit progress reports.
7. To oversee and review action taken on internal audit recommendations.
8. To review the internal audit annual plan.
9. To be consulted on the external audit strategy and plan.
10. To review all reports from the Council's External Auditors.
11. To oversee and review action on external audit recommendations.
12. Without prejudice to the role of the Standards Committee to deal with matters included in their terms of reference, in particular matters arising from the

investigation of disclosures under the Council's Public Interest Disclosure Policy, to provide assurance on the Council's compliance with Financial and Security Regulations, Contract Standing Orders and Accounting Codes of Practice.

13. To review the Council's financial performance as contained in the Annual Report and Accounts.
14. To examine the activities and accounts of the Council and exercise a governance role over management efforts to ensure (a) that the expenditure approved by the Council has been incurred for the purposes intended; (b) that services are being provided efficiently and effectively; and (c) that value for money is being obtained, all in accordance with Best Value requirements.

#### Summary of the work of the Audit Committee during 2007/2008

As a result of the Council elections in May 2007 the composition of the Audit Committee changed and included members who were new to the Council. Ian Ross, who had been the Vice-Chair of the Committee, was elected as Chair with Christopher Valentine elected as Vice-Chair.

The Audit Committee meets quarterly i.e. March, June, September, and December.

With the change in composition of the Audit Committee it was decided that that training would be provided. This training was provided by KPMG, the Council's internal audit partners. Grant Thornton, the Council's external auditors, was also in attendance to explain their role in relation to the Council.

During the year various reports are submitted to the Audit Committee. The reports are;

- The 3 Year Strategic Audit Plan (every 3 years);
- The Internal Audit Annual Plan;
- Progress Report on Internal Audit Plan
- Internal Audit Annual Report
- External and Internal Audit Report Follow up
- Review of Internal Audit by Robson Rhodes (now Grant Thornton)
- KPMG workplan
- Risk Management and Business Continuity Strategy
- Summary Of Quarterly Performance Reports
- Annual Audit Plan for External Auditors
- Annual Accounts – Financial Statements

- External Audit reports
- National Reports from Audit Scotland
- Briefing note on Performance of Strathclyde Pension Fund
- Update on Legal Services Review

In addition the Committee have requested reports from Officers as a result of issues arising from Internal Audit follow up reports, Quarterly Performance reports etc

Another issue highlighted by Grant Thornton when they carried out their review of compliance with the code was that the Committee did not get copies of Internal Audit reports. The Head of Strategic Finance submitted a report to the Audit Committee in June 2007 recommending that a Summary and Action Plan for each internal audit be reported to the committee. This was approved by the committee and reports have been submitted from September 2007.

The Audit Committee have, after reviewing the reports submitted to them, requested updates where they have concerns about issues arising from the reports. Staff have been requested to prepare reports and attend the Audit Committee in person to provide explanations.

The Audit Committee robustly challenged and investigated failures to meet agreed actions in response to audit findings.

The Audit Committee also requested explanations on performance as detailed in the Quarterly Performance Reports.

#### Audit Committee's views on the Internal control framework, risk management and governance arrangements

it is the opinion of the Audit Committee that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2008.

The Council is making good progress in risk management with the regular review of Strategic and Operational Risk Registers and the proposed implementation of Business Continuity Plans.

It is the opinion of the Audit Committee that the Council has good arrangements for Corporate Governance and has adopted the principles of Good Governance. The principles are;

- Openness and inclusivity
- Integrity
- Accountability

These principles are reflected in each dimension of the Council's business. These dimensions are;

- Community Focus
- Service Delivery Arrangements

- Structures and Processes
- Risk Management and Internal Control
- Standards of Conduct

These are addressed by:

#### Community Focus

- Public performance report, annual plan/service plans, annual accounts, Audit Committee, Internal and External Audit, Government Inspectorates, Community Planning Partnership.

#### Service Delivery Arrangements

- Annual service plans, Statutory Performance Indicators, 3 year budgeting process, Best Value Reviews, positive responses to audit reports.

#### Structures and Processes

- Code of Conduct for Members and Officers. Standing Orders, Scheme of Administration and Delegation, Committee Reports, Council Minutes, Roles and Responsibilities of Members and Officers.

#### Risk Management and Internal Control

- Risk Management Strategy, Audit Committee function, Performance Management system, service planning, Internal audit plan, Financial Regulations, Treasury Management policy, Fraud policy and whistle blowing policy, best value reviews, Health & Safety Policy, Corporate Risk Register, Annual report statement of compliance, External auditor audit certificate.

#### Standards of Conduct

- National Code Of Conduct for Councillors, Local Code Of Conduct for Councillors, Code of Conduct for Employees, Anti Fraud and Corruption Policy, Standards Committee, Standing Orders, Financial Regulations, Register of Interests for members and officers.

### Conclusion

The terms of reference which guide the activities of the Audit Committee are well established. Over the last five years the Committee has evolved an agreed framework of reporting which now allows immediate assessment of the Council's progress in addressing identified issues of internal control and risk management. With a solid base established in this regard, the Committee is now moving to a more pro-active posture on the Council's operations. A mechanism having now been established for post completion audits on capital projects, it has been agreed that the committee will be involved in the selection of projects to be reviewed and reported on by Internal Audit.

The inception of the Single Outcome Agreement, the move to phase two of Best Value and the increasing emphasis on self assessment, identify the Audit Committee as an important resource for the Council in addressing these challenges.

Over the coming year the Committee will identify a process which will allow a formal audit and assessment of its own efficacy.

The committee is in good heart and relishing its role and contribution.