

DRAFT

Annual Report by Audit Committee for the Financial Year 2008 - 2009

Background

Grant Thornton UK LLP, External Auditors, have evaluated the extent to which the Council's Audit Committee arrangements complied with the principles set out in the CIPFA guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note" and found that the Audit Committee operated effectively and complied with the majority of good practice principles outlined in the CIPFA guide. In particular, the approach adopted by the Council to appoint non-executives as chair and vice chair of the Audit Committee goes beyond good practice, and significantly improves overall governance and scrutiny within the Council.

The evaluation determined that although the Audit Committee Terms of Reference presently met many of the best practice guidelines set out under CIPFA guidance, further improvements could be made.

Grant Thornton UK LLP also provided recommendations in their resultant Interim Management Report of 30 September 2008 and identified areas of development for the Audit Committee namely, self assessment, the establishment of an annual work and training plan, and further development of the Audit Committee Terms of Reference.

Terms of Reference of the Audit Committee

Draft Terms of Reference were submitted to the Audit Committee meeting on 12 December 2008, updated and presented again on 6 March 2009 and agreed. The amended version included a section on Performance and clarified the Committee's role to oversee the production of the Council's Statement of Internal Control.

In addition, the Committee agreed that:

- The Director of Corporate Services be requested to include these Terms of Reference in the revised Council Constitution to go to the Council for approval, and
- The Terms of Reference will be reviewed annually by the Committee.

The Terms of Reference are included as Appendix 1 to this report, and were approved by Council on 22 May 2009.

Self Assessment

In complying with CIPFA guidelines, it is recognised that the Audit Committee will need to identify, prioritise, assess, scope and plan out a programme to achieve their training needs. This will be informed by identifying key tasks that the Audit Committee have to annually undertake. A report setting out a self assessment

checklist and workplan framework was presented to the Audit Committee in December 2008 by Internal Audit.

The checklist template had been extracted from the Chartered Institute of Public Finance report, "A Toolkit for Local Authority Audit Committees," amended for Scotland, and the work plan framework template provided an initial document to enable the Audit Committee to look at developing an annual workplan with key events and meetings recorded.

It was agreed to consider a self assessment exercise at a separate meeting outwith the cycle of Audit Committee meetings. A further report setting out the proposed template of activities and issues for consideration prior to this self assessment exercise was considered on 6 March 2009 along with a report from KPMG UK LLP providing a suggested way to take this forward. A workshop facilitated by KPMG UK LLP to consider further the work and training plan, terms of reference and self assessment exercise was arranged for 29 May 2009. The results of which is the subject of a separate report from KPMG UK LLP.

It was also agreed by the Audit Committee on 6 March 2009 that a presentation on the introduction of International Financial Reporting Standards into Scottish Local Government prepared by the Head of Strategic Finance would be presented to the Audit Committee at the workshop on 29 March 2009.

On 26 February the Audit Committee visited East Renfrewshire to attend a meeting of their Audit Committee. This provided an opportunity to compare political and operational arrangements for a Council with a similar population but very different geographical area.

Summary of the work of the Audit Committee during 2008/2009

The composition of the Audit Committee has been virtually unchanged throughout 2008/2009 with only Councillor Ron Simon resigning and being replaced by Councillor Andrew Nisbet from 12 December 2008. Ian Ross acted as Chair, with Christopher Valentine acting as Vice-Chair, throughout the year.

The Audit Committee meets quarterly i.e. March, June, September, and December; and are normally also attended by the Head of Democratic Services & Governance, the Head of Strategic Finance, the Internal Audit Manager and Grant Thornton, the Council's external auditors together with officers requested to attend by the Audit Committee.

The Audit Committee agreed at their meeting on 12 December 2008 that a draft of their annual report will be considered by the Committee at their June meeting with the final report submitted to their September meeting for approval.

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 Grant Thornton
 - 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 / Accounts Commission
- Briefing note on Performance of Strathclyde Pension Fund
- Update on Legal Services Review

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

The Audit Committee have, after reviewing the reports submitted to them, requested updates where they have concerns about issues arising from the reports. Management 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 raised questions with regard to the format of the Quarterly Performance Reports and asked for increased clarity regarding the information provided in the report. In addition to reviewing the Quarterly Performance Reports, the Audit Committee requested explanations from senior management on performance issues detailed in the reports.

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 of compliance review resulting in a report. One resultant recommendation required that Internal Audit have a policy on the secondment of staff both from and to Internal Audit. A report with a proposed Internal Audit Secondment policy was considered and approved by the Audit Committee on 19 September 2008.

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 2009.

The Council is making progress in risk management with further development and regular review of Strategic and Operational Risk Registers and Business Continuity Plans.

Conclusion

The terms of reference which guide the activities of the Audit Committee are soundly based and are being reviewed and revised as necessary on an annual basis. The Committee has evolved and agreed a framework of reporting which now allows appropriate assessment of the Council's progress in addressing identified issues of governance, risk management and internal control. With a solid base established in this regard, the Committee is now moving to a more pro-active posture on the Council's operations.

The evolution of the wider performance environment of the Single Outcome Agreement, and the move to Best Value Phase 2 places an increasing emphasis on self assessment, and the increasing assessment role being performed by Policy and Planning Groups (PPGs), clearly identifies the importance of the Audit Committee as a resource for addressing new challenges.

A mechanism has now been established for post completion audits on capital projects, it has been agreed by the Council that the Audit Committee will be involved in the selection of projects to be reviewed and reported on by Internal Audit.

The Audit Committee has made real progress in terms of self improvement through implementing the recommendations made by Grant Thornton UK LLP. In particular the Audit Committee identified a framework for performance improvement which will allow it to formally audit and carry out a self assessment of its own efficacy. Audit Committee performance has been aided through the expertise available from its members.

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

APPENDIX 1

ARGYLL and BUTE COUNCIL

Audit Committee – Terms of Reference

The Committee's Terms of Reference are generally to promote good internal control, financial management, risk, governance and performance management, in order to provide 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.

The specific terms of reference are as follows –

Audit Activity

- To agree the internal audit strategic plan, oversee and review action taken on internal audit recommendations;
- To consider the annual report, opinion, and summary of Internal Audit activity (actual and proposed) including the level of assurance it can give over the Council's corporate governance arrangements and other specific internal audit reports;
- To consider the External Auditor's Annual Letter, relevant reports, and the report to those charged with governance and other specific External Audit reports;
- To comment on the scope and depth of External Audit work and to ensure it gives value for money;
- To commission work from Internal and External Audit;
- To consider the performance of Internal and External Audit;
- To facilitate training to support the role of Audit Committee Members;
- To develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability;
- To promote good financial practice within the Council;
- To be consulted on the External Audit strategy and plan, review reports from the Council's External Advisors and review action on External Audit recommendations; and
- To review the Council's financial performance as contained in the Annual Report, and to report annually to the Council on the internal control environment.

Regulatory Framework

- To maintain an overview of the Council's Constitution in respect of contract procedure rules, and financial regulations;
- To monitor the effective development and operation of risk management and corporate governance in the Council;
- To monitor the Anti fraud and corruption strategy and the Council's arrangements for dealing with any allegations of fraud or similar improper behaviour;
- To oversee the production of the Council's Statement on Internal Control; and

- To consider the Council's compliance with its own and other published standards and controls.

Accounts

- To examine the activities and accounts of the Council and exercise a governance role over management efforts to ensure that;
 - (a) The expenditure approved by the Council has been incurred for the purposes intended;
 - (b) Services are being provided efficiently and effectively;
 - (c) Value for money is being obtained, all in accordance with Best Value requirements; and
 - (d) The Council/Executive has appropriate information and advice available to them to make decisions.
- To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council; and
- To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Performance

- To promote good performance management practice within the Council;
- To assess the effectiveness of the Council's Performance Management System;
- To regularly review outputs from the Council's performance management system;
- To consider performance and inspection reports from internal audit, external audit and other relevant agencies;
- To commission specific performance reviews to be carried out where necessary;
- To review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;
- To overview key performance indicator outcomes, including quarterly service performance reporting and Statutory Performance Indicator outcomes;
- To comment on proposals for developing a performance management framework, systems and processes; and
- To review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans for performance work to be undertaken by both external and internal audit