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**Annual Report by Audit Committee for the Financial Year 2009 - 2010**

Background

The Audit Committee is striving to effectively discharge their function in accordance with the CIPFA guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note"

As part of their 2008/09 interim audit, Grant Thornton UK LLP, External Auditors, carried out a follow-up review on Governance Arrangements including the effective operation of the Audit Committee. A report was presented to the Audit Committee in June 2009.

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. A subsequent report was produced by KPMG UK LLP and presented to the Audit Committee for their review on 18 September 2009.

Terms of Reference of the Audit Committee

Terms of Reference were approved by Council on 22 May 2009, and are included as Appendix 1 to this report. These Terms of Reference are reviewed annually by the Audit Committee.

Self Assessment

It is recognised that the Audit Committee needs 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 has to annually undertake, developing an annual workplan with key events and meetings recorded.

Further to the workshop facilitated by KPMG UK LLP it was agreed that the self assessment exercise and effectiveness review of the Audit Committee was to remain a stand alone activity, out with the cycle of Audit Committee meetings that would be completed annually. This annual exercise will be undertaken with a report to the September 2010 Audit Committee.

In addition, the Audit Committee will annually determine the level of expertise required to fulfil their remit, and also determine a training programme for individual members in line with the expertise requirements of the overall committee remit. The findings of these annual reviews will be reported to the June Audit Committee.

Consideration will also be given to formalising an individual member training programme induction process, tailored to fit each individual's need.

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The external audit report also identified a need to ensure that members of the Audit Committee are fully aware of changing legislation pertinent to their role. It was determined that a training programme would be defined annually with an identified training provider,

### Summary of the work of the Audit Committee during 2009/2010

The composition of the Audit Committee changed on 22 May 2009 when Councillors Roderick McCuish and Bruce Marshall resigned and were replaced by Councillors James Robb and David Kinniburgh. Ian Ross acted as Chair; throughout the year with Dr Christopher Valentine acting as Vice-Chair until his resignation on 5 March 2010. Councillor Robb recorded the Committee's thanks and appreciation to Dr. Valentine for all his work and commitment to the Committee over the last six years.

A successor Dr Christopher Valentine is being sought, and in-line with a recommendation from KPMG UK LLP, consideration will be given to agreeing a process for succession planning.

The Audit Committee meets quarterly i.e. March, June, September, and December; and are normally also attended by the Head of Governance and Law, 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 have agreed 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.

Grant Thornton UK LLP has been appointed by the Accounts Commission for Scotland as the external auditor for the five year period commencing 2006/2007. A Plan outlining how they will approach the audit of the Council in the fourth year of their appointment, reflecting their statutory duties and risk based approach was considered by the Audit Committee at their meeting on 5 March 2010.

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

- The Internal Audit Annual Plan;
- Progress Report on Internal Audit Plan;
- Internal Audit Reports;
- External and Internal Audit Report Recommendations Follow up;
- Risk Management and Business Continuity Strategy;
- Annual Audit Plan for External Auditors;
- Annual Accounts – Financial Statements;
- External Audit reports;
- National Reports from Audit Scotland / Accounts Commission;
- The National Fraud Initiative Reports;
- E-Procurement; and
- Absenteeism, Stress, Recruitment & Retention.

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The Audit Committee also reviewed reports on the Best Value Service Reviews of Protective Services & Licensing, Community Planning and an on-going service review of Internal Audit. A further report informing the Committee of the procedure and guidance for service reviews and related governance structure was discussed at the meeting on 5 March 2010. The Audit Committee noted the approach being taken but expressed concerns regarding insufficient scrutiny of service reviews currently being undertaken. They requested that the Executive review the process to allow for a more thorough and robust scrutiny of service reviews, involving a wider selection of Members and that this scrutiny takes place as early as possible to allow service reviews to be discussed and deliberated fully in advance of any decisions taken on them. On 15 April 2010 the Audit Committee views were reported to the Executive and a report noted that Audit Committees concerns would be addressed through the transformation programme.

As noted in last year's report a mechanism has now been established for post completion audits on capital projects. It was agreed by the Council that the Audit Committee would be involved in the selection of projects to be reviewed and reported on by Internal Audit. A post completion report on the Port Askaig Redevelopment was considered at the meeting on 18 September 2009 and several recommendations made regarding future practices.

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.

A presentation was given to the Audit Committee at their meeting on 18 September 2009, on the Council's performance management system, Pyramid. This included an explanation of the process for reporting scorecard information to Members, the information contained within the Scorecards and progress with the development of the performance management system and what areas still had to be developed. It was agreed to request Internal Audit to look at the effectiveness of the process and system of the performance planning and management framework (PPMF), including the developing role of the Policy and Performance Groups. An initial report of Performance Management was reviewed on 5 March 2010, and it was noted that an in depth Review of Performance Management will be undertaken by Internal Audit during 2010/2011.

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

At their meeting on 18 September 2009 the Audit Committee approved a report setting out the arrangements for the preparation of the Local Code of Governance and a draft Statement of Governance & Internal Control, in accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009.

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The completed Local Code of Governance 2009/2010, together with an Improvement Plan will be reviewed at the June 2010 meeting. The draft Statement of Governance & Internal Control will also be reviewed and finalised for inclusion in the Annual Accounts.

Based on the reports reviewed during the year, 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 2010.

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.

Further to recommendations made by Grant Thornton UK LLP, the Training Day facilitated by KPMG UK LLP has enabled the Audit Committee to identify a framework for performance improvement which has allowed 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, which will be further enhanced through the development of individual training programmes.

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 Performance Groups (PPGs), clearly identifies the importance of the Audit Committee as a resource for addressing new challenges.

The Audit Committee is in good heart and relishing its role and contribution.

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**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;

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- 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 needs 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