

## **APPENDIX 1**

### **ANNUAL REPORT BY AUDIT COMMITTEE**

**FINANCIAL YEAR 2010 - 2011**

#### 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.

An Audit Committee – Self Assessment 'Away Day' was held on 21 January 2011. The objectives of the day were to undertake a self evaluation of the role and responsibilities of the Committee by its members. This covered a review of the Committee Terms of Reference, the development of a training and work plan and evaluation of the annual performance indicators reported to the Committee by Internal Audit. In addition, the Committee was addressed by Grant Thornton on the future role of the Audit Committee.

#### Terms of Reference of the Audit Committee

Terms of Reference are reviewed annually by the Audit Committee and, as noted previously, this exercise was carried out at the Committee Away Day. Revised Terms of Reference were prepared, which include adjustments to both headings and content, and are included as Appendix 1 to this report. The revised terms were adopted by the Council at their meeting on 28 April 2011.

#### Self Assessment Exercise

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 Away Day, it was agreed that the self assessment exercise and effectiveness review of the Audit Committee was to remain a standalone activity, out with the cycle of Audit Committee meetings that would be undertaken annually.

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.

The external auditors were supportive of the achievements made by the Audit Committee over the past few years and assisted with the clarification of the future role and responsibilities.

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### Summary of the work of the Audit Committee during 2010/2011

The composition of the Audit Committee has changed from last year, on 29 June 2010 when Councillor Mary-Jean Devon resigned and was replaced on 19 August 2010 by Councillor Daniel Kelly. On 6 December 2010 Councillor Andrew Nisbet also resigned and was replaced by Councillor George Freeman. Ian Ross acted as Chair throughout the year with Martin Caldwell being appointed as Vice-Chair on 11 August 2010.

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 final year of their appointment, reflecting their statutory duties and risk based approach was considered by the Audit Committee at their meeting on 4 March 2011.

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;
- Procurement; and
- Absenteeism, Stress, Recruitment & Retention.

The Audit Committee also reviewed reports on the Best Value Service Reviews of Regulatory Services & Licensing, Legal Services.

The Council's Assurance & Improvement Plan and an updated Anti Fraud Strategy within the Financial Security Regulations were also reviewed by the Audit Committee, and a review was carried out on Argyll Air Services.

It is noted that Internal Audit commenced an in depth review of Performance Management during 2010/11 and this will continue into 2011/12.

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The Audit Committee have, after reviewing the reports submitted to them, requested updates where they have concerns about issues arising from the reports. They have requested management 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.

### 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.

The completed Local Code of Governance 2010/2011, together with an Improvement Plan was reviewed at the June 2010 meeting. The draft Statement of Governance & Internal Control were also reviewed and approved for inclusion in the Annual Accounts, subject to External Audit feedback.

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 2011.

At the away day, the External Auditors recommended that risk management arrangements should be considered in the Audit Committee's annual report. Risk management is reviewed on a quarterly basis by the Audit Committee and it is recognised that the Council has been making progress with further development and regular review of Risk and Business Continuity. It is felt that the detailed and structured approach being adopted will ensure that risk management becomes embedded within the Council.

### 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 Away Day 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.

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#### **ARGYLL and BUTE COUNCIL**

##### **Audit Committee – Terms of Reference 2010/2011**

The Committee's Terms of Reference are generally to promote good, internal control, financial and risk management, 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; and
- To consider the Council's compliance with its own and other published standards and

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controls.

### Financial Accounts and Governance

- 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;
- To oversee the production of the Council's Governance and Internal Control Statement; and
- To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

### Delivery Achievement Monitoring

- To assess the effectiveness and development 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 scrutiny bodies;
- To commission specific 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 (SPI) outcomes; and
- To review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans in terms of audit work to be undertaken by both external and internal audit.