



AUDIT COMMITTEE

AWAY DAY REPORT

21 JANUARY 2011

DRAFT

CONTENTS

	PAGE
1. BACKGROUND	2
2. THE OBJECTIVES FOR THE DAY	2
3. SELF ASSESSMENT QUESTIONNAIRE RESULTS	2
4. AUDIT COMMITTEE TERMS OF REFERENCE	3
5. ANNUAL WORK PLAN	3
6. ANNUAL TRAINING PLAN	3
7. INTERNAL AUDIT – PERFORMANCE INDICATORS	4
8. GRANT THORNTON – FUTURE ROLE OF THE AUDIT COMMITTEE	4
9. INTERNAL AUDIT – FUTURE OPTIONS	5
Appendix 1 – Terms of Reference 2011 - 12	
Appendix 2 – Annual Work Plan 2011 - 12	
Appendix 3 – Training Plan 2011 - 12	
Appendix 4 – Input/Output Measures	
Appendix 5 – Future Options	

1. BACKGROUND

At the request of the Audit Committee an away day was undertaken by the Audit Committee on 21 January 2011. The purpose of the day was to provide the Audit Committee with an analysis of completed self-assessment questionnaires in order to identify actions for the Audit Committee in order to develop an annual work and training plan. A review of the Audit Committee's Terms of Reference was also undertaken. The Audit Committee members who attended the meeting were:

- Audit Chairman – Ian Ross;
- Audit Vice - Chairman – Martin Caldwell;
- Councillor - Gordon Chalmers;
- Councillor - George Freeman;
- Councillor - Daniel Kelly;
- Councillor - David Kinniburgh; and
- Councillor - James Robb.

The Audit Chairman and Vice-Chairman are not elected members of the Council and this is considered by Grant Thornton to be a progressive model.

2. THE OBJECTIVES FOR THE DAY

The following objectives were set for the day:

- § Review Self Assessment Analysis;
- § Review Audit Committee Terms of Reference;
- § Review and develop work plan 2011 - 12;
- § Develop a training plan for the year 2011 - 12;
- § Review annual Internal Audit Performance Indicators;
- § Discuss future Internal Audit delivery options; and
- § Gain an understanding of the future role of the Audit Committee.

3. SELF ASSESSMENT QUESTIONNAIRE RESULTS

The results highlighted a number of both specific and generic issues that face the Audit Committee. In summary the main issue is around member induction and the raising of awareness of the role of the audit committee and its remit. Areas were identified where members thought additional training would be helpful such as external audit, financial reporting and internal control. The appointment of new audit committee members can introduce individuals to areas that they have not had experience of before.

Non-attendance at Audit Committee meetings from some members was highlighted as an issue by Grant Thornton however this has now been addressed. However an effective induction process and training programme would assist in addressing the issues that exist at present. This places greater emphasis on the need for a developed induction and ongoing training plan.

4. AUDIT COMMITTEE TERMS OF REFERENCE

The current terms of reference which follow the guidance outlined by the Chartered Institute of Public Finance and Accountancy (“CIPFA”) was presented for discussion by the members of the Audit Committee. The members undertook a review of the 4 section headings detailed in the Terms of Reference:

- Audit Activity;
- Regularity Framework;
- Accounts; and
- Performance.

The members of the Audit Committee provided comment mainly with regard to 2 sections of the Terms of Reference – Accounts and Performance. With regard to Accounts although members were confident that the council’s financial accounts were prepared to the required standard and appropriately audited by external audit, some members felt that they would benefit from gaining more knowledge about the analysis of financial data. Regarding Performance, some members provided comment on whether the heading Performance was adequate and suggested that a new heading and increased objectivity be brought to this section of the Terms of Reference.

As a result an updated Terms of Reference has been prepared and adjustments have been made to both headings and content as set out in Appendix 1. The amended Terms of Reference is in Draft and requires to be approved by the Audit Committee.

5. ANNUAL WORK PLAN

The Audit Committee members reviewed the current work plan which details the reporting agenda items by quarter. Currently, the Audit Committee receive reports covering External and Internal Audit, Risk Management, Anti-fraud and Corruption, Performance Management, Corporate Governance and Annual Accounts. The members agreed that the current annual work plan addressed the recent areas of development within the Council, such as performance management, corporate governance and risk management. There was agreement that these areas were already incorporated with specific actions for future quarterly Audit Committee meetings and that the work plan should remain unchanged. The members also noted that the annual work plan quarterly agenda items provided the opportunity to request the attendance of senior officers at Audit Committee meetings. A draft Work Plan for 2011 – 2012 is set out for approval in Appendix 2.

6. ANNUAL TRAINING PLAN

The training plan focuses on individual and collective training needs. There is a generic training package under consideration by management. The aim of the package is to bring both committee members and stakeholders up to the same level of understanding in terms of the role and remit of the Audit Committee. The Training Plan outline was provided to the members for review. Members agreed to continue with annual tasks as outlined and proposed that training requests be noted within the training plan for 2011 – 2012. Therefore a Draft Training Plan has been prepared for review by the members of the Audit Committee with action responses and dates provided as set out in Appendix 3.

7. INTERNAL AUDIT – PERFORMANCE INDICATORS

The members of the Audit Committee were provided with a copy of the Internal; Audit - Performance Indicators (PIs) reported annually to the committee. The members discussed the merits of each of the indicators and requested a clearer description regarding Input Performance Measurement 1 - Percentage of audit work carried out by qualified and specialist staff with a target of achievement set at 65%. The Audit Committee originally requested that this indicator be included within the input performance measures in order to monitor and evaluate the effects on internal audit delivery at a time when the section had minimal qualified and specialist staff availability. The situation has now predominately reversed and there is a reduced need to report this indicator.

The amended Input and Output indicators are provided in Appendix 4 for approval by the Audit Committee.

8. GRANT THORNTON – ROLES AND RESPONSIBILITIES OF AUDIT COMMITTEE MEMBERS

Gary Devlin a Director at Grant Thornton the councils external auditors covered the future role of the Audit Committee for members. Gary commenced his presentation by listing 7 headings to facilitate discussion around how the Audit Committee might influence their approach over the coming financial year. The headings are provided below:

- **Financial risk** - the council has to make cuts of c£44million in its budget over the next 3 years. There is a real risk that it may not be able to deliver its programme of savings, potentially impacting on financial resilience.
- **Demand risk** - the council faces significant financial pressure at a time of increasing demand for services, linked to both demographic changes and the impact of the recession (on economic activity, crime levels etc). How will the council respond to manage demand effectively during this period?
- **Political risk** - the council is facing a range of challenges during a period of political uncertainty. The Parliamentary elections in May is preventing politicians at a national level from setting a clear strategic direction for local government and committing to financial settlements beyond the current year. Elected members may also face a challenge during a period of cuts to effectively represent their constituents whilst also discharging their role in the strategic management of the council.
- **People risk** - the council's key resource is its people, there is some evidence (e.g. sickness levels, productivity) that there remains scope for greater efficiency in how the council best manages its people (through improved workforce planning or greater use of technology). The financial cutbacks could lead to lower morale or poor workforce relations. How will the council demonstrate it is managing its people effectively?
- **Asset risk** - the council needs to demonstrate that it is managing its assets effectively. The council has an inherited estate facing challenges around maintenance backlogs (e.g. school estate, roads network), number of council buildings across a range of geographical locations, poor quality of the roads network, and whether its asset base remains 'fit for purpose
- **Economic risk** - the council is the largest employer in the region, and economic activity is limited by geographical location. As the council cuts expenditure, there is a

real risk that economic activity in Argyll and Bute will suffer relatively significantly (potentially more than in urban areas), with potential impact on young people moving out of the area. Managing this risk effectively will have a direct impact on future prosperity in the region.

- **Sustainability risk** - the council is still required to meet national targets in relation to a range of sustainability issues (carbon reduction targets, waste management, and green energy usage). Argyll and Bute has significant potential to be leaders in green energy.

Gary Devlin presented slides which covered main areas of focus for members:

- Internal Control;
- Risk Management;
- The role of Internal Audit;
- The role External Audit;
- Fraud arrangements;
- Performance Review; and
- Current Position.

In relation to the current position Main messages delivered by Gary Devlin were, that the Audit Committee should play a key role in assessing the adequacy and effectiveness of the Council's system of internal control in conjunction with the work of management, external and internal audit and other scrutiny bodies. Risk management arrangements should be considered in the Audit Committee's annual report which is presented to the Council and links to the Annual Governance Statement. Members should review internal audit coverage within its 3 year and annual audit plans. That audit plans are taking cognisance of external scrutiny body findings and the wider challenges facing the council. A similar approach was recommended for the Audit Committee when reviewing external audit plans. Gary Devlin also covered how the Audit committee should evaluate their own performance and highlighted key questions for self evaluation that should be answered by the members of the Audit Committee.

The general feeling of the members was that the session provided by Grant Thornton was useful and clarified to members what the future role and responsibilities are for the Audit Committee. Gary Devlin was supportive of the achievements made by the Audit Committee over the past few years.

9. INTERNAL AUDIT – FUTURE OPTIONS

An overview of the option delivery for internal audit was provided to members for their consideration in respect of which option provided would support the Audit Committee and its objectives best. The options presented to the members were set out under 4 main headings and are listed in Appendix 5:

- In-house;
- Strategic Partnership;
- Public Sector Joint Working; and
- Externalisation.

The members discussed the main advantages and disadvantages of each option. The consensus of opinion from the members was that having a fully resourced in-house team would probably be a good option but only if the required resources were in place. The members noted the value added by contract auditors and were concerned that if this was lost and not appropriately replaced it could limit internal audit and the quality of audit reports to the Audit Committee.

Members considered that the strategic partnership has been beneficial to internal audit in providing assistance in delivering the audit plan and specialist audit work. If the internal audit section was not fully resourced with an appropriately qualified in-house team then there may be merit in forming a partnership with an external accountancy firm. It was noted that the role of internal audit is wider than just financial control and that developing audit areas could benefit from the input of external professional resources. However, this would need to be weighed against the cost of training to broaden an in-house audit resource knowledge base.

The option to form a partnership with another internal audit section within a neighbouring council was discussed as was developing a wider working relationship with other public sector organisations within Argyll and Bute. The members were advised that a survey of public bodies located within the council geographic area indicated that their internal audit service was provided by professional accountancy firms on a contract basis. Although the internal audit section could bid for this work, additional resources to cover the additional audit work may have to be engaged. In respect of joint working with another council's internal audit section, the members were informed that presently there are some developments currently being undertaken by the internal audit section in relation to the development of audit tools, the use of software packages and limited joint audit working. However, the main inhibitor to a consolidated link was the lack of conformity of local authority main computer systems.

The externalisation option was reviewed by the members who decided that this may be a costly option which would require a tender to be prepared in order to determine what service could be provided and at what cost.

APPENDIX 1
ARGYLL and BUTE COUNCIL
2011 – 2012
DRAFT
Audit Committee – Terms of Reference

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 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.

APPENDIX 2
AUDIT COMMITTEE - ANNUAL WORK PLAN 2011 - 2012

Meeting dates	March	June	September	December
Agenda Items	<p>1. Audit Committee</p> <ul style="list-style-type: none"> Annual Report <p>2. Internal Audit</p> <ul style="list-style-type: none"> Annual Audit Plan Approval Follow up Actions Status Progress against Plan Completed IA Reports <p>3. External Audit</p> <ul style="list-style-type: none"> Annual Audit Plan Follow up Actions Status Progress against Plan Consider EA Reports <p>4. Risk Management</p> <ul style="list-style-type: none"> Quarterly Update Report Progress update on development of Risk Management. <p>5. Performance Management</p> <ul style="list-style-type: none"> Quarterly Update Report Ensure 'Data Integrity' is included in internal audit plan. <p>6. Anti-Fraud & Corruption</p> <ul style="list-style-type: none"> Annual report on National Fraud Initiative (NFI). 	<p>1. Internal Audit</p> <ul style="list-style-type: none"> Report on year Follow up Actions Status Progress against Plan Completed IA Reports. <p>2. External Audit</p> <ul style="list-style-type: none"> Interim Audit work review. Progress against Plan Consider EA Reports. <p>3. Risk Management</p> <ul style="list-style-type: none"> Quarterly Update Report Progress update on development of Risk Management. <p>4. Performance Management</p> <ul style="list-style-type: none"> Quarterly Update Report <p>5. Anti-Fraud & Corruption</p> <ul style="list-style-type: none"> Annual Review of fraud results across the Council. <p>6. Corporate Governance Arrangements</p> <ul style="list-style-type: none"> Review Statements of Control <p>7. Accounts</p> <ul style="list-style-type: none"> Review of un-audited accounts Review progress of IFRS 	<p>1. Audit Committee</p> <ul style="list-style-type: none"> Self Review <p>2. Internal Audit</p> <ul style="list-style-type: none"> Private meeting Follow up Actions Status Progress against Plan Completed IA Reports <p>3. External Audit</p> <ul style="list-style-type: none"> ISA260 Report Private meeting Progress against Plan Consider EA Reports <p>4. Risk Management</p> <ul style="list-style-type: none"> Quarterly Update Report Progress update on development of Risk Management. <p>5. Performance Management</p> <ul style="list-style-type: none"> Quarterly Update Report <p>6. Accounts</p> <ul style="list-style-type: none"> Review of audited annual accounts. 	<p>1. Audit Committee</p> <ul style="list-style-type: none"> Work and Training Plan Terms of Reference reviewed to confirm ongoing appropriateness. <p>Internal Audit</p> <ul style="list-style-type: none"> Ensure Fraud and 'Data Integrity' linked to Performance management system are included in audit plan development. Follow up Actions Status Progress against Plan Completed IA Reports <p>2. External Audit</p> <ul style="list-style-type: none"> Annual Audit report. Progress against Plan Consider EA Reports <p>3. Risk Management</p> <ul style="list-style-type: none"> Quarterly Update Report Progress update on Development of Risk Management. <p>4. Performance Management</p> <ul style="list-style-type: none"> Quarterly Update Report Review Finalised

Audit Committee – Self Assessment Day

Date: 24 February 2011

Draft Project Update Report

	<ul style="list-style-type: none">• Review of Anti-Fraud and Corruption arrangements. <p>7. Accounts</p> <ul style="list-style-type: none">• Accounts Completion - Work Plan review.	implementation and development of management information.	Scorecards to be adopted by performance management system. <ul style="list-style-type: none">• Discuss the implications of Best Value 2 within the Council. <p>5. Corporate Governance Arrangements</p> <ul style="list-style-type: none">• Annual Report on Corporate Governance• Consideration of Internal Control Statement.• Consider actions taken to monitor relevant statutory and regulatory issues affecting Council.
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APPENDIX 3
AUDIT COMMITTEE TRAINING PLAN 2011 - 2012

RECOMMENDED ACTIONS	ACTION RESPONSE	PROPOSED ACTION DATE
<p>The self-assessment exercise and effectiveness review of the Audit Committee was agreed to remain a stand alone activity that would be completed annually. The next date needs to be defined.</p>	<p>The Audit Committee will meet annually and undertake a self assessment and effectiveness review. The findings will be reported to the June Audit Committee.</p>	<p>21 January 2011</p>
<p>Audit Committee overall expertise required to fulfil remit is to be identified.</p>	<p>The Audit Committee will annually determine the level of expertise required to fulfil their remit. Results to be reported to June Audit Committee.</p>	<p>21 January 2011</p>
<p>Tailored individual training programme to be developed for each committee member based upon expertise identified for overall committee.</p>	<p>The Audit Committee will annually determine a training programme for individual members as determined by the expertise requirements of the overall committee remit. Results to be reported to the June Audit Committee.</p>	<p>21 January 2011</p>
<p>Identify a provider to deliver a broad ranging training programme on corporate governance and the role of the Audit Committee extended to both Audit Committee members and other key stakeholders (i.e. council members, executive and senior management). Delivery before June 2011 Committee meeting.</p>	<p>To ensure members are fully aware of changing legislation pertinent to the Audit Committee remit, a training provided has been identified and a training programme will be delivered before the June Audit Committee.</p>	<p>May 2011</p>
<p>External auditor to be requested to complete a short presentation on the role of the external auditor. Particular focus on explaining the key reports it produces that the Audit Committee need to review.</p>	<p>The Audit Committee will receive a short presentation from the external auditor with coverage of the key reports to be produced as outlined in their annual plan.</p>	<p>June 2011</p>
<p>A formal induction process should be defined that incorporates a private meeting with the Audit Chairman and Head of Strategic Finance following appointment and the creation of an individually tailored training programme. It was agreed that the constitution should form a pivotal part within the induction process.</p>	<p>The Audit Chairman and Head of Strategic Finance to formalise an individual member training programme induction process.</p>	<p>To be discussed</p>

APPENDIX 4

INPUT PERFORMANCE MEASURES 2011 – 2012

Ref	Performance Indicator	Target	Achieved 2011- 12	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%		
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%		
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%		
4.	Reports display: clear opinion; action plan of prioritised recommendations and management responses; a person responsible; and date for completion.	All reports (100%) state a clear conclusion/opinion; contain an action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.		
5.	Management's feed back on audit planning and fieldwork.	To achieve 'average' or better in questionnaire ratings. (i.e.: a mean score of '3' or more for each question		
6.	Percentage of direct audit time	Target 81%		

APPENDIX 4

OUTPUT PERFORMANCE MEASURES 2009 – 2010

Ref	Performance indicator	Target	Achieved 2011- 12	Comment
1.	Audit operational plan to be submitted to the Audit Committee by 31 March each year.	31 March of each year (100%)		
2.	Follow-ups to be performed within one year of the audit-taking place.	100% of recommendations followed up in following year		
3.	Completion of the Annual Audit Plan subject to variations agreed by Audit Committee.	100%		
4.	Recommendations accepted compared to recommendations made.	Fundamental/High – 100% Material/Medium – 100% Minor/Low – 100%		
5.	Internal audit costs are within budget (including in-year budget variations)	Total costs were within budget.		

APPENDIX 5

INTERNAL AUDIT - FUTURE OPTIONS

	Explanation	Main advantages	Main disadvantages
In house team	<ul style="list-style-type: none"> 1 Team provided by internal resources 1 It may be possible to rotate staff in from elsewhere in the Council for set periods of time to work on specific assignments 	<ul style="list-style-type: none"> 1 Retains and reinforces in-house knowledge and relationships 1 Enables staff skills to be expanded 1 Training ground for recruiting staff into the business 	<ul style="list-style-type: none"> 1 Staff are fixed cost 1 May have periods of resource shortage 1 May lack specialist skills 1 Difficult to keep up with best practice 1 Council bears burden of recruitment and training
Strategic Partnership	<ul style="list-style-type: none"> 1 Council provides core body of staff 1 External partner provides experienced staff 	<ul style="list-style-type: none"> 1 Access to best practice / tools / methodology / specialist skills and knowledge etc. Flexibility of resource to meet workload and specialist demands 1 Balances relationships / knowledge of council business with flexible resource base. 1 Variable cost rather than fixed 	<ul style="list-style-type: none"> 1 Possible lack of continuity – learning curve for partners 1 Depth of knowledge of council business and culture could be a barrier 1 The access to availability of staff from the partner may be a problem
Public sector consortium	<ul style="list-style-type: none"> 1 Amalgamating internal audit with other public sector audit functions to undertake audit review functions / activities / controls 	<ul style="list-style-type: none"> 1 Improves knowledge of the activities of the public sector 1 Encourages sharing of good practice 1 Provides insight to participants of other organisations 	<ul style="list-style-type: none"> 1 Dependent on available resources 1 May lack particular internal audit knowledge and skills 1 Lacks true independence of the operations 1 Often does not cover strategic risks
Externalisation	<ul style="list-style-type: none"> 1 Internal Audit resources are entirely provided by an external provider 	<ul style="list-style-type: none"> 1 Resources are always available 1 Access to skills / best practice / tools / methodology / knowledge etc 1 Truly independent 	<ul style="list-style-type: none"> 1 Lack of familiarity initially with the business and individuals 1 Limited knowledge transfer 1 Curtailed audit plan 1 Additional work paid at consultancy rates