

## **ANNUAL REPORT BY AUDIT COMMITTEE CHAIR and VICE CHAIR FINANCIAL YEAR 2011 - 2012**

### **Background**

The Audit Committee remains focused on effectively discharging its function and responsibility in accordance with the CIPFA guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note". I have requested that a copy of this guidance be provided to all new Members of the committee along with the CIPFA Audit Committees – Practical Guidance for Local Authorities book.

### **Summary of the work of the Audit Committee during 2011/2012**

The composition of the Audit Committee has been unchanged throughout the year 2011/12. However, following the Council elections Councillors Gordon Chalmers and Daniel Kelly were not re-elected and Councillors George Freeman, David Kinniburgh and James Robb were not reappointed to the Audit Committee. The following Councillors were appointed to the Audit Committee; Gordon Blair, Maurice Corry, Iain MacDonald, Duncan McIntyre and Aileen Morton. I fulfilled the role of Chair throughout the year with Martin Caldwell acting as Vice-Chair. My term of office was extended to 30 September 2012, to allow for continuity on the Audit Committee post-election, and to allow the new Council to consider whether the existing Audit Committee should continue.

The Audit Committee meets quarterly throughout the financial year i.e. March, June, September, and December; the meetings are usually attended by the Head of Governance and Law, the Head of Strategic Finance, the Chief Internal Auditor and external audit together with officers requested to attend meetings by the Audit Committee.

The Audit Committee have previously agreed that a draft of their annual report will be considered at their June meeting with the final report submitted at the September meeting for approval.

Grant Thornton UK LLP completed their five year period as the Council's external auditor following completion of the Annual Accounts 2010/2011. Audit Scotland in March 2012 presented a plan setting out their approach to the audit of the Council in the first year of their five year appointment, reflecting their statutory duties and risk based approach. This was considered by the Audit Committee at their meeting on 16 March 2012 and accepted.

During the financial year various reports were submitted to the Audit Committee. These included:

- The Internal Audit Annual Plan;
- Progress Report on Internal Audit Plan;
- Internal Audit Reports;
- External Audit reports;
- External and Internal Audit Report Recommendations Follow up;
- Risk Management and Business Continuity Strategy;
- Strategic Audit Plan 2011-2014;
- Annual Audit Plan for External Auditors;
- Annual Accounts – Financial Statements;
- National Reports from Audit Scotland / Accounts Commission;
- The National Fraud Initiative Reports;
- Performance Management; and
- Managing Absence.

In addition, the Audit Committee received and reviewed reports on matters out with the internal audit annual plan where audit work had been undertaken and from Executive

Directors and Heads of Service. An example is a report on the Best Value Service Review of Internal Audit, together with revised Internal Audit Terms of Reference. The Audit committee also received and reviewed the Council's Assurance & Improvement Plan, an Audit Assurance Report on Treasury Management and a further progress report on Argyll Air Services were also reviewed by the Audit Committee.

It is noted that Internal Audit commenced an in depth review of Performance Management during 2010/11 and an interim progress report was considered in 2011/12. This review will continue into 2012/13.

The Audit Committee have, after reviewing the reports submitted to them, requested updates. This is done where they have concerns about issues arising from the reports. The format is to request management to prepare reports and attend the Audit Committee in person to provide clarification and further explanation of particular aspects to reports.

The Audit Committee robustly challenges and investigates failures to meet agreed actions in response to audit findings.

The Audit Committee has a role in ensuring that the Councils internal control framework, risk management and governance arrangements are being controlled and are effect.

The Audit Committee meeting of 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 2011/2012, together with an Improvement Plan were presented and reviewed at the June 2011 Audit Committee meeting. The draft Statement of Governance & Internal Control were also reviewed and approved for inclusion in the Annual Accounts, subject to External Audit feedback. This process will continue with the presentation of these documents to the June 2012 Audit Committee.

The Audit Committee have a responsibility to ensure that Risk Management including Business Continuity, is reviewed on a quarterly basis by them, and it has been recognised that the Council has been making progress with further development and regular review of Risk and Business Continuity. The committee has felt that the detailed and structured approach being adopted will ensure that risk management becomes embedded within the Council and progress will continue to be monitored in 2012/2013. With regard to Business Continuity progress has been made by the Council and a report is due to the June 2012 Audit Committee outlining the achievements expected by the Audit Committee.

Based on the reports reviewed during the year, the follow up work requested, 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 2012.

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

Terms of Reference are reviewed annually by the Audit Committee and 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 Self Assessment Away Day held on 21 January 2011, 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 view of the impending Council elections and any resultant changes in membership of the Audit Committee, the Chair and Vice Chair decided to defer the annual review of self assessment and effectiveness until after the elections. This review will be scheduled at the June 2012 Audit Committee meeting.

At the Away Day, the Audit Committee annually determines the level of expertise required to fulfil its remit, and also develops a training programme for individual members in line with the expertise requirements of the overall committee remit. In line with the preceding self review process, these annual reviews will be reported to the September 2012 Audit Committee.

Consideration will also be given in 2012/13 to formalising an individual member training programme induction process, tailored to fit each individual's need.

The previous external auditors, Grant Thornton UK LLP, 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. It is anticipated that the Audit Committee will seek to continue a close working relationship with the new external auditors, Audit Scotland.

## **Conclusion**

The committee's Terms of Reference which guide the activities of the Audit Committee are soundly based and are reviewed and revised on an annual basis. The Audit 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 has moved to a more pro-active posture on the Council's operations.

The Audit Committee has identified a framework for performance improvement which has allowed it to formally audit and undertake a self assessment of its own efficacy. Audit Committee performance has been aided through the expertise available from its Members during the year. This will be further enhanced through the development of individual training programmes for the members appointed after the recent Council elections.

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 has as over the years developed its role and will look to continue this through its Members in 2012/13.