

# **ANNUAL REPORT BY AUDIT COMMITTEE CHAIR and VICE CHAIR FINANCIAL YEAR 2012/13**

## **Introduction**

As Chair of the Audit Committee, I can report that the Audit Committee in 2012/13 continued to focus its efforts on effectively discharging its functions and responsibilities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note". Members of the Audit Committee received initial training from CIPFA centred on their roles and responsibilities; this was supported by literature which expanded on CIPFA guidance note principles.

The Audit Committee met quarterly throughout the financial year i.e. March, June, September, and December; the meetings were attended by the Head of Governance and Law, the Head of Strategic Finance, the Chief Internal Auditor, Audit Scotland along with Council Officers as and when requested to attend.

In 2012/13, the following Councillors served on the Audit Committee; Gordon Blair, Maurice Corry, Iain MacDonald, Duncan McIntyre and Aileen Morton. In respect of the Chair and Vice Chair posts there were changes. The previous Chair, Ian Ross stepped down in September 2012 and I, Martin Caldwell assumed the role of Chair with Sheila Hill appointed as Vice Chair and who brings added experience to the committee.

## **Summary of the work of the Audit Committee during 2012/2013**

The Audit Committee role is to ensure that the Council's internal control framework, risk management and governance arrangements are being controlled and are effective. It does this through the following mechanisms:

### **Receipt and Review of Reports**

During 2012/13 the Audit Committee received reports covering:

- External and Internal Audit Annual Plans;
- Quarterly Progress Reports on Internal Audit Plan;
- External and Internal Audit Reports;
- Audit Recommendation Implementation Reports;
- Risk Management and Business Continuity Strategy Reports;
- Corporate Performance Audit Report;
- Council's Assurance & Improvement Plan;
- Treasury Management Assurance Report;
- Audit Scotland/Accounts Commission National Reports;
- Managing Absence;
- National Fraud Initiative Reports;
- Performance Management; and
- Annual Accounts – Financial Statements.

The Audit Committee has, after reviewing the reports submitted to it, the right to request updates. This is done where it has 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 of their report. In 2012/13 the Audit Committee after reviewing the above submitted reports requested report updates from management. This approach afforded the Audit Committee the opportunity to directly ask management key questions and receive assurances. In addition, the Audit Committee robustly challenged management when agreed audit recommendation implementation dates were missed.

Audit Scotland in March 2013 presented their Annual Audit Plan setting out their approach to the audit of the Council, reflecting their statutory duties and risk based approach. The Audit Plan was considered by the Audit Committee and accepted. Internal audit also presented their Annual Audit Plan for 2013/14 which was approved.

### **Systems of Risk Management**

It is the role of the Audit Committee to gain assurance on the adequacy of the system of internal controls and being assured on the adequacy of the system of risk management. The role of the Audit Committee is to test the adequacy of the arrangements in place to manage risk. The Audit Committee in 2012/13 received quarterly risk management reports and these showed continued progress by the Council in the development and regular review of risk management systems. The Audit Committee has agreed to maintain its focus on seeking assurance on the development of adequate systems of risk management.

In 2012/13 the Audit Committee received update reports covering the Council's progress in imbedding Business Continuity within departments and services. Throughout 2012/13 the Audit Committee requested and received reports setting out in particular the progress of services in completing recovery plans. In 2013/14 the Audit Committees will maintain its vigilance over the on-going development of Business Continuity across all services.

### **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 2012 Audit Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and approved for inclusion in the Annual Accounts, subject to External Audit feedback.

The draft Statement of Governance & Internal Control was informed by the:

- Work of Officers within the Council;
- Work of External and Internal Audit;
- Statements of Governance or Internal Control provided by external bodies;
- External review and inspection reports (in particular the LAN report); and
- Recommendations from the Audit Committee.

This process will continue with the presentation of these documents to the June 2013 Audit Committee.

### **Terms of Reference**

The current Terms of Reference follow the guidance outlined by the CIPFA and is presented annually for discussion and approval. At the Audit Committee Away Day in February 2013, members undertook a review of the section headings:

- Audit Activity;
- Regularity Framework;
- Financial Accounts and Governance; and
- Delivery Achievement Monitoring.

Members concentrated their attention on the last section after receiving a short review of the Performance Review and Scrutiny (PRS) Committee Terms of Reference by their Chairman. Subsequently the members decided that in respect of the PRS the Audit Committee ToR should be amended with two of the items listed under 'Delivery Achievement Monitoring' being removed. They recognised also that there will be common areas of overview with each committee approaching the subject from its distinctive perspective.

As a result an updated ToR has been prepared and is set out in Appendix 1 for discussion and approval. Once approved by the Audit Committee it will go forward for Council approval.

## **Self-Assessment**

This year the Audit Committee self-assessment day focused on looking at the challenges the Council will face over the coming years. The first key issue was the identification of the strategic risks facing the Council. Members cited a number of risk areas but the agreed three priorities were demographic change, infrastructure and the economy. The Audit Committee agreed to focus on the alignment in risk management systems between the key risks set out in the Strategic Risk Register and the corporate and operational plans of the Council. The Audit Committee defined its role as that of commissioning assurance through reviewing and questioning the process and evidence surrounding risk control measures.

Following this discussion the Audit Committee reviewed and amended its own work plan for the coming year making changes that supported the decision to place greater emphasis on the strategic risks faced by the Council. Other topics covered by the Audit Committee included Corporate Governance, Committee Training, Audit versus Scrutiny, Regulation, Legislation and Assurance Challenges. As Chair I extended an invitation to the Chair of the Performance Review and Scrutiny (PRS) Committee to attend and provide the Audit Committee with his views on areas of linkage and support between the two committees. This allowed the Audit Committee to review and amend its Terms of Reference (ToR) in order to complement the work and ToR of the PRS.

## **Conclusion**

Based on the reports received and reviewed by the committee and 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 2012/13.

Throughout 2012/13 the Audit Committee evolved and agreed a framework of reporting which allows it to undertake appropriate assessment of the Council's progress in addressing identified issues covering risk, governance 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's draft ToR which guides its activities has been updated to complement the development of the PRS and Member comments and is presented to the June committee for review and approval. Thereafter the ToR will be presented to the full Council for inclusion in the Council Constitution.

The Audit Committee has an established framework for performance improvement which allows 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 2012/13. This will be further enhanced through the development of individual training programmes for Members in 2013/14. The Audit Committee has over the years developed its role and will look to continue to develop its effectiveness in 2013/14.