

AUDIT COMMITTEE ANNUAL REPORT 13/14

1 Executive Summary

- 1.1 This report provides an overview of the Audit Committee's activity during the financial year 2013/14 and is provided to give Members assurance that the Committee continues to discharge its duties in accordance with published guidance.
- 1.2 The report highlights the Audit Committee's opinion that a substantial level of assurance can be placed upon the adequacy and effectiveness of the Council's internal control system
- 1.3 Commentary is provided in relation to the role of the Audit Committee and its agreed terms of reference
- 1.4 The report provides detail on the reporting protocols in place and outlines various reports received during an annual cycle.
- 1.5 The Audit Committee continues to evolve and is committed to continuous development. Some key improvements are noted in the report including using the new Public Sector Internal Audit Standards (PSIAS) to introduce the internal audit charter and improvements to the process of scoping and signing off internal audits.
- 1.6 Reference is also made to Member attendance which was poor during 2013/14 however a substantial improvement has been noted for the first half of 2014/15.
- 1.7 The report outlines the roles of Internal and External Audit which are a key source of assurance for both Members and management on the effectiveness of the control environment, governance and financial management.
- 1.8 The work of Internal Audit and the External Audit programme ensure that statutory responsibilities are delivered, without the duplication of audit work. Both programmes are submitted to the Audit Committee for scrutiny. External Audit undertook some additional targeted work out-with the planned programme, the detail of which was noted at the September Audit Committee.
- 1.9 There are no financial implications arising for this report.
- 1.10 The report requests Members are asked to note the opinion of the Audit Committee that substantial assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in 2013/14

AUDIT COMMITTEE ANNUAL REPORT 2013/14

2 INTRODUCTION

- 2.1 This report provides an overview of the Audit Committee's activity during the financial year 2013/14.

3 RECOMMENDATIONS

- 3.1 Members are asked to note the opinion of the Audit Committee that substantial assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in 2013/14.

4 DETAIL

- 4.1 **Background:** The Audit Committee continues 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".
- 4.2 The Audit Committee is made up of five elected Members. The chair and vice chair are independent lay Members. The committee meets quarterly March, June September and December.
- 4.3 As per CIPFA's guidance, the purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 4.4 The Committee's Terms of Reference are to promote good internal control, financial and risk management, governance and performance management. This provides substantial 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
- 4.5 During financial year 13/14 the Audit Committee received and reviewed reports covering:
- External and Internal Audit Annual Plans and Audit Reports;
 - Quarterly Progress Reports on Internal Audit Plan;
 - Audit Recommendation Follow up Reports;
 - Risk Management Reports;

- Corporate Performance Audit Report;
- Council's Assurance & Improvement Plan;
- Financial Statements;
- Treasury Management Assurance Report;
- Audit Scotland/Accounts Commission National Reports;
- National Fraud Initiative Reports;
- Performance Management Annual review /assurance report

4.6 Member attendance at quarterly meetings was disappointing during financial year 13/14. However, this has improved during the first half of 14/15. In order to ensure the Audit Committee builds on its effectiveness and maintains a positive impact and high profile within the Council it is essential that Members attend scheduled meetings.

4.7 It is important that all Members are clear in respect of role of the Audit Committee which per the terms of reference, is primarily about providing assurance, regarding the internal control environment and governance arrangements in place within the Council.

4.8 It is also important that Members understand that issues or concerns which may be of political or reputational profile may not necessarily fall within the terms of reference or scope of the Audit Committee.

4.9 It should be further noted that, in order to maintain independence and objectivity, Internal Audit should remain free from interference by any element of the Council, including matters of audit selection, scope, procedures, timing or report content.

4.10 **Continuous Development:** Improving the effectiveness of the Audit Committee is a continuing priority. During 13/14 the committee introduced a number of changes resulting in additional assurance in relation to:

- Using the new Public Sector Internal Audit Standards (PSIAS) to introduce the internal audit charter and improve the process of scoping and signing off internal audits;
- Introducing regular updates of progress by the External Audit team of their Audit Plan;
- Revisions to the approach the Council takes to dealing with Audit Scotland National reports;
- Enhancing the use of the Strategic Risk Register including the inclusion of an assessment of scoring /risk appetite;
- Securing a report on the approach to mitigation actions to address economic and population decline
- Strengthening the process of annual audit plan preparation by the use of a developed risk matrix methodology;

4.11 In addition to the above the Committee also holds a bi-annual development day. During 14/15 the committee is also planning to undertake a self- assessment exercise against CIPFA's recommended practice.

4.12 **Assurance:** Internal Audit is a key source of assurance for both Members and management on the effectiveness of the control environment. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance.

- 4.13 The Committee received regular reports and information from the Chief Internal Auditor including:
- Internal Audit's risk based planning methodology and annual audit plan;
 - Activity progress reports;
 - Control Weakness Follow up reports;
 - An Annual report from the Chief Internal Auditor in line with best practice in the CIPFA code for Internal Audit in Local Government which provided an opinion on the control environment and the effectiveness Internal Audit activity.
- 4.14 Any control weaknesses arising from Internal Audit reports are effectively dealt with due to the Committees' continued emphasis on the importance of fully implementing Internal Audit recommendations.
- 4.15 External Audit is an essential part of the process of accountability and assurance for public funds, providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management. Working closely with Internal Audit, the External Audit programme ensures that statutory responsibilities are delivered, without the duplication of audit work. Both programmes are submitted to the Audit Committee for scrutiny.
- 4.16 Assurance was received from external auditors, Audit Scotland, for 2013/14 financial statements as follows:
- They presented a true and fair view in accordance with applicable law;
 - The accounts prepared properly in accordance with IFRS; and
 - The accounts prepared properly in accordance with Local Government Act (Scotland) 1973.
- 4.17 External Audit is required to report by exception on a number of areas in relation to their audit, namely accounting records, statement of governance and control, availability of information and explanation and failure to achieve a prescribed financial objective. External Audit reported no exceptions in respect of these matters for 2013/14.
- 4.18 External Audit also undertook some additional targeted work as a result of correspondence from Members of the public. Management letters were issued to the Council and the content noted at the September meeting of the Audit Committee. The chair of the Audit Committee has requested that, where applicable, Audit Scotland develop an improved protocol for communicating with Internal Audit on such matters.

5 CONCLUSION

- 5.1 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 substantial assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in 2013/14.
- 5.2 Throughout 2013/14 the Audit Committee evolved and continues to evolve with an agreed 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 continues to adopt a pro-active posture on the Council's operations

6 IMPLICATIONS

- 6.1 Policy: None
- 6.2 Financial: None
- 6.3 Legal: None
- 6.4 HR: None
- 6.5 Equalities: None
- 6.6 Risk: An effective Audit Committee will aid effective governance.
- 6.7 Customer Service: None

MARTIN CALDWELL – CHAIRPERSON AUDIT COMMITTEE

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