

AUDIT COMMITTEE ANNUAL REPORT 2016/17

Introduction by the Chair of Audit Committee

This report provides an overview of the Audit Committee's activity during the financial year 2016/17.

I am pleased to report that the Audit Committee 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".

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

In 2016/17, the following Councillors served on the Audit Committee at various points during the year; Michael Breslin, Iain S MacLean, Roderick McCuish, Elaine Robertson, Richard Trail. In respect of the Chair and Vice Chair posts, I, Martin Caldwell continued in the role of Chair with Sheila Hill as Vice Chair.

In looking forward to 2017/18 and beyond, given the significant financial pressures challenges facing the Council and the on-going implementation of major initiatives such as of Health and Social Care integration and the Council's Leisure Trust, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting the challenges ahead, building on a strong audit platform and developing the Scrutiny element of the new committee whilst continuing to add value to the Council's governance framework.

Martin Caldwell
Chairperson

Sheila Hill
Vice Chairperson

Index

	Page
1. Terms of Reference, Audit Committee Effectiveness and Impact	3
2. Assurances	4-6
• Internal Audit Assurance	
• External Audit Assurance	
• Risk Management	
• Annual Governance Statement	
3. Independence	6
4. Training and Development	6
5. Looking Forward	6-7
6. Conclusion	7

1. Terms of Reference

- 1.1 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.

2. Audit Committee's Effectiveness and Impact

- 2.1 The Audit Committee's role is to ensure that the Council's internal control framework and governance arrangements are operating effectively and in order to fulfil this role a range of reports are provided to the Committee during the year. The Audit Committee is not a complaints committee. I am satisfied that the frequency, content and detail of reports provided to the Committee allow myself and fellow members to adequately undertake the requirements of our terms of reference.
- 2.2 The Audit Committee has the right to request updates after reviewing submitted reports. This approach afforded the Audit Committee the opportunity to ask key questions directly and receive assurances. In addition, the Audit Committee can routinely challenge management when agreed audit recommendations implementation dates were missed. Informal protocols are also in place whereby Management are requested to attend committee where assurance level provided is limited or below. This has proved very useful in developing positive relationships with management whilst ensuring independence is maintained. Management's co-operation and engagement is very much appreciated.
- 2.3 Audit Scotland in March 2016 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 2016/17 which was approved.
- 2.4 It is disappointing to note that there were a number of vacancies on the Committee during the year, although these were latterly filled. It is essential that all vacancies are filled at the earliest opportunity and that members of the committee engage in the process in order to ensure the Audit Committee builds on its effectiveness and maintains a positive impact and appropriate profile within the Council.
- 2.5 In its ongoing development the Audit Committee introduced a number of changes resulting in additional assurance and improved effectiveness and these continue to mature. These are:
- Improved Agenda Management
 - Maintaining effective communication protocols between Internal and External Audit
 - Improving links between Audit and Performance Review & Scrutiny Committees
 - Securing an Annual Audit and Risk report from the Chief Executive
 - Raising the profile of Audit within the Organisation

3. Assurances

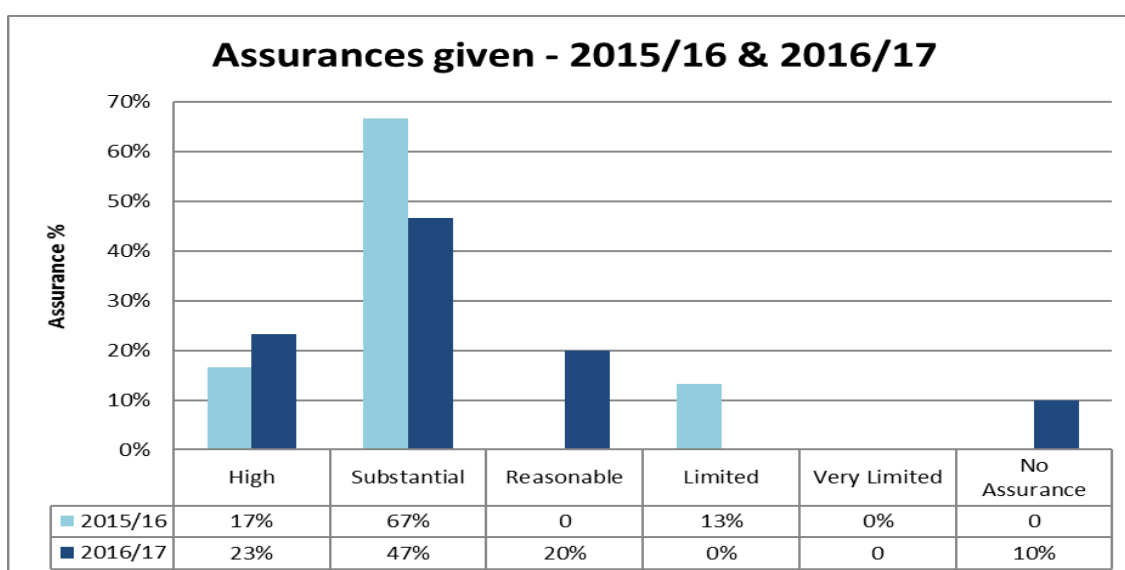
3.1 Internal Audit Assurance

3.1.1 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. The Committee is pleased to note the Internal Audit team has completed the agreed audit plan within the agreed timescale. Reports are deemed to be accurate, objective, concise, constructive, complete and timely. In my opinion clear assurance judgements are provided, underpinned by an appropriate evidence base and where appropriate include sound management advice and guidance. We will continue to monitor Internal Audit performance, progress and resources to ensure they are able to meet these requirements.

3.1.2 The Committee has received regular reports and information from the Chief Internal Auditor including:

- Internal Audit’s risk based planning methodology and annual audit plan;
- Regular progress 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.

3.1.3 The chart below shows an analysis of assurance opinions received over financial years 15/16 and 16/17.



It should be noted that both the Reasonable and No assurance opinion grading were introduced for financial year 16/17. Very limited opinion grading was removed effective 16/17.

3.1.4 The Audit Committee has a clear role in relation to oversight of the Authority’s internal audit function. The role of the committee is specifically in relation to overseeing its independence, objectivity, performance and professionalism. I am pleased to advise as Chair of the Committee that I am satisfied the Internal Audit function is effective and activity is undertaken in accordance with relevant standards. This view is supported by commentary in Audit Scotland’s 15/16 annual audit report whereby they state the Council has “an effective internal audit function”.

3.2 External Audit Assurance

3.2.1 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.

3.2.2 Assurance was received from external auditors, Audit Scotland, for 2015/16 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.

3.2.3 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 2015/16.

3.2.4 The external auditor's 2015/16 Annual Audit Report on the council (September 2016) highlights that operational governance arrangements are generally sound, with key financial controls operating effectively.

3.2.5 Argyll and Bute Council was previously incurring an External Audit fee at a higher level as a result of increased correspondence from members of the public. In previous reports I noted it was the desire of the Audit Committee in carrying out its activities to secure additional assurance in respect of governance, risk and control processes which would potentially contribute to a reduction in external audit fees. I am again pleased to note that the External Audit Fee has further reduced.

3.3 Systems of Risk Management

3.3.1 It is the role of the Audit Committee to gain assurance on the adequacy of the system of internal controls and 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 2016/17 received 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. The Audit Committee continue to receive an Assurance Mapping report prepared by Grant Thornton, Internal Audit Strategic partners. The Chief Executive also submitted a report to the committee on Audit and Risk arrangements.

3.4 Governance & Internal Control

3.4.1 In accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009, the completed Local Code of Governance 2015/16, together with an Action plan was presented and reviewed at the June 2016 Audit Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and noted for inclusion in the Annual Accounts, subject to External Audit feedback.

3.4.2 The draft Statement of Governance & Internal Control is 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 and
- Recommendations from the Audit Committee.

The content of the Governance Statement and the process for preparing the Governance Statement has been reviewed for 2016-17 financial year-end.

4. Independence

4.1 To assist in preserving the Committee's independence measures are in place including:

- The appointment of an independent chair and vice chair,
- Observation of the Audit Charter which specifies the independence of the Chief Internal Auditor and of auditors in identifying and scoping audit briefs
- The non-political approach of the committee
- The active involvement of the External Auditors
- Clear terms of reference aligned to CIPFA's Role of the Audit Committee Guidance

5. Training and Development

5.1 Audit Committee Effectiveness sessions have taken place throughout the term of the previous Council and were aimed at addressing themes arising from analysis of a CIPFA self-assessment exercise. As well as induction courses for the new Committee I anticipate that these will continue throughout 17/18, albeit perhaps in a different format and frequency. Specific training requirements in respect of the Scrutiny role will be addressed as soon as possible.

6. Looking Forward

6.1 At its May 2017 meeting the Council agreed political management arrangements which include the creation of an Audit and Scrutiny Committee. Although there are areas where Audit and Scrutiny naturally combine, there is a requirement to ensure that Audit matters in respect of governance, risk and control remain clearly defined and matters for scrutiny are treated as such. I look forward to the development of this new committee over the interim period. I am also pleased to note that officer support arrangements include the Chief Internal Auditor, who although having no direct operational responsibility, will also have an overview of Scrutiny arrangements.

- 6.2 The Audit Committee is committed to self-evaluation and continuous improvement and I would like to thank members for their attendance and contributions during the year. Subject to the membership, our focus will continue to be on the role of the Audit Committee, developing skillset and expertise to allow effective challenge based on strong principles of risk, control and assurance in respect of the operations, finances and governance of the council. It is envisaged that the committee will continue with its' substantive effectiveness programme which will assist in providing a sound grounding on the focus and operating principles respectively of audit and scrutiny.
- 6.3 The Audit element of the Committee, although subject to continuous improvement, is reasonably well developed. In respect of the new scrutiny remit of the committee I hope to adopt a similar pro-active approach by developing and building on the work of the former Performance Review and Scrutiny committee to ensure scrutiny is seen and operates as an in-depth reviewing function which looks outwards to inform its analysis and adopts a discursive positive form of inquiry.

7. Conclusion

- 7.1 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 an overall substantial assurance opinion can be placed upon the adequacy and effectiveness of the Council's internal control system in 2016/17. I am satisfied that active monitoring and follow up of recommendations is in place in respect of agreed management action. This follow up process will be further enhanced by the inclusion of supplementary further testing within the continuous monitoring programme.
- 7.2 Throughout 2016/17 the Audit Committee evolved and indeed continues to evolve with an agreed framework of reporting and agenda management 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.

Audit Committee performance has been aided through the expertise and contribution from its Members during 2016/17.