

Committee report

Committee	AUDIT COMMITTEE
Date	19 MAY 2015
Title	AUDIT COMMITTEE ANNUAL REPORT 2014/15
Report of	CHAIR OF THE AUDIT COMMITTEE

EXECUTIVE SUMMARY

1. The Audit Committee, in line with best practice in other sectors, should prepare an annual report to Full Council that sets out the committee's work and performance during the year, including how it has met its terms of reference.

BACKGROUND

2. The annual report should cover as a minimum:
 - Confirmation that the system of risk management in the authority is adequate in identifying risks;
 - Confirmation that there are no areas of significant concerns about the systems of governance in the council that have come to the committee's attention which have not been adequately resolved.
3. In addition, the report should highlight to the Full Council the main areas that the committee has reviewed and any particular concerns or issues that it has addressed. These should include:
 - the financial position and financial reporting systems of the authority
 - any major break-down in internal control that has led to a significant loss in one form or another
 - any major weakness in the governance systems that has exposed, or continues to expose the authority to an unacceptable risk
 - the results of any formal review which the committee has undertaken of its own effectiveness.
4. The committee is established by the council's constitution as a full committee with accountability to Full Council. Its terms of reference are set by Full Council when it reviews and approves the constitution. The committee's terms

of reference were approved by the committee and subsequently by Full Council on 15 May 2013. They are reproduced at Appendix A.

5. The committee's membership was increased during the year so that there are fewer occasions when it might be inquorate. The committee's membership now totals 7. The committee continued to have a co-opted member who has played a valuable role in bringing his expert knowledge to the committee's business.
6. The committee achieves its objectives by regular reports from a range of assurance activities including the following:
 - Regular reports from the council's internal auditors, who carry out a programme of reviews across all aspects of the council's business. The committee has input into deciding what the internal auditors will look at when it considers the draft internal audit plan. It also sees the results of their work as the year progresses. Any serious issues of risk or weaknesses in internal control are therefore likely to be identified and brought to the committee's attention.
 - The committee also receives reports from the council's external auditors who have a range of statutory responsibilities to fulfil. The committee acts as the body as 'those charged with governance' and receives an annual report from the external auditors on the council's financial governance. The work of the external auditors provides the committee with an entirely independent opinion on the council's financial affairs, its accounting arrangements and on whether it secures value for money.
 - The committee receives regular reports on the status of the council's strategic and other risks, and an annual report on the council's risk management arrangements. It therefore has an opportunity to judge whether those arrangements are adequate and whether the management of risk is robust.
 - The committee reviews the council's draft and final accounts and therefore receives assurance that the council's financial transactions have been properly accounted for.
 - The committee reviews and approves the council's Annual Governance Statement which sets out how the council meets its governance requirements.
 - The committee reviews half yearly summaries of the Procurement Board's activity and is able to enquire into any issues which concern the council's procurement procedures. The committee's terms of reference also include the role of reviewing and approving the council's contract standing orders.
 - The committee reviews and recommends the council's treasury management strategy, which has the potential to be a significant risk to

the council. It receives half yearly reports on the performance of the council's treasury management activity;

- The committee reviews and approves the council's Financial Regulations and any proposed changes to them. There is a report on the agenda for today's meeting to review them.

The committee is able to rely on these assurances in meeting its terms of reference.

7. The committee reviewed the council's governance arrangements as set out in its Annual Governance Statement for 2013-14 (and is in the process of doing so again for 2014-15). In general, it can be said that the council's governance arrangements continue to be effective. According to evidence provided by officers to the committee, in the main there are no areas of significant duplication or omission in the council's systems of governance. The committee has continued to seek further assurance about risks (other than those deemed to be strategic) which nonetheless have the potential to have a significant impact on the council achieving its objectives, and this remains a work in progress. The committee has been informed of an erroneous payment that occurred during 2013/14 and continues to receive updates, each time it meets. The committee has been given assurance that controls have been introduced which will prevent a recurrence of the error.
8. The financial position and financial statements of the council have been reviewed by the committee and it has received assurances from the unqualified opinion of the external auditors (in respect of the 2013-14 accounts).

REVIEW OF THE COMMITTEE'S EFFECTIVENESS

9. Best practice recommends that the committee should periodically examine its own effectiveness. The review takes place annually and the last review concluded (in September 2014) that in general the committee undertakes its key functions. The committee makes a continuing point of reviewing its effectiveness.
10. The committee undertook further training during the year and following its success in the previous year attended an interactive workshop on the role of the audit committee hosted by the council's internal auditors. It included a session on the changing face of local government and session on effective risk management. Again, this was recognised by those who attended as a very worthwhile and successful event. It is likely to be repeated for the committee later in 2015.
11. The committee also received briefings on:
 - The strategic risk in relation to adult safeguarding (June 2014)

- The strategic risk in relation to staffing capacity and skills (September 2014)
 - Treasury management (February 2015)
12. The Internal Audit review of corporate Governance made recommendations that there should be:
- An effective mechanism for the committee to track items for follow up (in relation to internal audit's recommendations)
 - Scheduling regular meetings between the chairs of this committee to ensure synergies are well managed

Both recommendations have now been implemented.

13. One of the roles of the committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment including independent scrutiny of the council's financial and non-financial performance to the extent that it affects the council's exposure to risk and weakens the control environment. The council's risk management arrangements were subject to an internal audit review during the year which made reference to the committee's role in risk: ensuring that members are appropriately equipped to fulfil their roles, for example training on risk applicable to their portfolio/committee responsibilities and ensuring that the right people and sufficient time are available to enable Audit Committee to effectively enquire/challenge arrangements and ultimately gain comfort that they are sufficiently robust. Since then there have been two training sessions for members on risk management, both outside of the committee's normal business meeting. The committee's membership has also been increased.
14. Last year the committee recognised that it needed to ensure that the council's risk and performance management arrangements were more robust. It has done this by challenging officers and asking for more detailed background information on the council's strategic risks allowing for greater scrutiny. This continues today with a presentation on adult services.
15. Finally, the committee through its role of overseeing both external and internal audit functions, has been involved in reviewing the provision of internal audit and in assisting in the re-tendering of the contract. A new contract will be in place with effect from 1 July 2015.

STRATEGIC CONTEXT

16. The Audit Committee plays an important role in the council's governance arrangements as its terms of reference require it to provide independent assurance of the adequacy of the risk management framework and the associated control framework including scrutiny of its financial and non-financial performance. In particular, by ensuring the adequacy and effectiveness of risk management arrangements, the committee ensures that risks to the council achieving its aims, both strategic and operational are appropriately managed.

FINANCIAL / BUDGET IMPLICATIONS

17. Whilst there are no direct financial implications arising from this report, clearly the committee plays a significant part in overseeing the financial governance of the council, not least by reviewing the council's financial statements and in being the focal point for the outcomes of both internal and external audit.

LEGAL IMPLICATIONS

18. Again, whilst there are no direct legal implications of this report, the committee does play an important part in the council's governance arrangements and in particular by receiving assurance from both internal and external auditors concerning the legality of council expenditure.

EQUALITY AND DIVERSITY

19. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. Following an initial screening it is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

RISK MANAGEMENT

20. There are no risk issues associated with this report. It is important that the work of the committee is reported on at least on an annual basis and that the full council has an opportunity to review the committee's activities.

RECOMMENDATION

21. The committee endorses this report on its activities during the last financial year and recommends that it is presented to Full Council.

APPENDICES ATTACHED

22. [Appendix A](#) – Audit Committee terms of reference

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