



Committee report

Committee	AUDIT COMMITTEE
Date	9 MAY 2016
Title	AUDIT COMMITTEE ANNUAL REPORT 2015-16
Report of	CHAIR OF AUDIT COMMITTEE

EXECUTIVE SUMMARY

1. This report is the annual report of the Audit Committee to Full Council, in line with best practice in other sectors. The report sets out the committee's work and performance during the year, including how it has met its terms of reference.
2. The committee is asked to endorse this report.

BACKGROUND

3. Best practice suggests that 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.
4. In addition, the report should highlight to 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.

5. 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.
6. In 2014-15, the committee's membership was increased so that there are fewer occasions when it might be inquorate. The committee's membership now totals seven; however there are currently two vacancies for elected members on the committee, increasing the reliance on active members. The committee continues to have a co-opted member who has played a valuable role in bringing his expert knowledge to the committee's business.
7. It is acknowledged that the work of this committee can be somewhat "dry" because of the necessary detail of the issues it has to consider and the time spent by members in reading and understanding the volume of papers. As well as attendance at formal and informal meetings, there is also the requirement for regular training sessions. For these reasons it has not been the most popular committee for elected members, leading to frequent vacancies and regular changes of membership. To undertake its work effectively, it would be helpful to have greater continuity in future.
8. 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.
 - 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.
 - 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.
 - Regular reports on the council's procurement activities, 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.

9. As the council moves to becoming more of a commissioning body, with much of its work undertaken through external contracts, the committee will need to focus more in future not just on procurement activity but on the management and "value for money" as contracts proceed. This is reflected in the changed officer structure. Work has already started on this aspect with a presentation by the Head of Contract Management during the year. In future, there will need to be specific financial consideration of existing and new contracts.
10. The committee also reviews the following:
 - The council's draft and final accounts and therefore receives assurance that the council's financial transactions have been properly accounted for.
 - The council's Annual Governance Statement which sets out how the council meets its governance requirements. This statement is approved by the committee at the same time as the annual accounts.
 - The council's Treasury Management Strategy, which has the potential to be a significant risk to the council. This strategy is recommended to full council for approval as part of the annual budget process. The committee receives half yearly reports on the performance of the council's treasury management activity.
 - The council's Financial Regulations and approves any proposed changes to them. There is a report on the agenda for today's meeting to review them.
11. The committee reviewed the council's governance arrangements as set out in its Annual Governance Statement for 2014-15 (and is in the process of doing so again for 2015-16). In general, it can be said that the council's governance arrangements continue to be effective. The committee has continued to focus on the key issues highlighted in the 2014-15 report, namely:
 - the impact of austerity measures on the council's capacity for good governance, strict internal controls and corporate memory;
 - risks inherent to change itself and the impact on governance;
 - the requirement for different approaches to governance as a result of innovative and partnership working;
 - the impact of the political environment in light of the council's unprecedented financial position.
12. 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.

13. 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 2014-15 accounts).
14. The ongoing financial challenges facing the council are considered by the audit committee, through the ongoing review of the strategic risk “Lack of financial resource and the ability to deliver the council’s in-year and medium term budget strategy” and through discussions with the external auditors around their identified risk that “the council would not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions”. Reporting at each committee meeting provides assurance that management are addressing these risks, and contributes to the committee’s confirmation of the going concern status of the council in the approval of the annual accounts.

REVIEW OF THE COMMITTEE’S EFFECTIVENESS

15. Best practice recommends that the committee should periodically examine its own effectiveness. The review takes place annually and the last review concluded (at an informal meeting in September 2015) that in general the committee undertakes its key functions. The committee makes a continuing point of reviewing its effectiveness.
16. The committee received briefings throughout the year, including:
 - Audit Committee effectiveness, including fraud management (interactive workshop September 2015, hosted by the council’s internal audit provider);
 - risk management (informal meeting November 2015);
 - the strategic risk in relation to contract management (December 2015);
 - the internal audit plan (informal meeting January 2016).
17. In addition, at today’s meeting there will be a presentation from the Head of Legal Services and Monitoring Officer on the results of the review of the council’s procurement function, and how reporting to the Audit Committee can be made more effective.
18. There were no specific internal audit reviews of the council’s corporate governance arrangements or risk management throughout 2015-16. Findings from the reviews carried out in 2014-15 have been implemented and continue to contribute to the effectiveness of the committee.

STRATEGIC CONTEXT

19. 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 this is 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

20. While there are no direct financial implications arising from this report, 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

21. Again, while 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, and in terms of the compliance with its statutory and regulatory responsibilities through the terms of references of internal audit reviews.

EQUALITY AND DIVERSITY

22. 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

23. There are no direct 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

24. The committee endorses this report on its activities during the last financial year.

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