



Committee report

Committee	AUDIT COMMITTEE
Date	3 DECEMBER 2018
Title	AUDIT COMMITTEE ANNUAL REPORT 2017-18
Report of	CHAIR OF AUDIT COMMITTEE

EXECUTIVE SUMMARY

1. This report is the annual report to the Audit Committee, in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance for audit committees issued in 2018.
2. The committee is asked to note this report.

BACKGROUND

3. Guidance provided by CIPFA states that all audit committees should review their effectiveness and that good audit committees are characterised by;
 - a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of authority will reflect the political balance of the council; however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair - displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but the key to these are;
 - promoting apolitical open discussion
 - managing meetings to cover all business and encourage a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes - treating auditors, the executive and management fairly

- the ability to challenge the executive and senior managers when required
4. The guidance also states that 'an audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Evidence will usually be characterised as 'influence, persuasion and support'.
 5. To aid in assessing its effectiveness the committee is encouraged to carry out an annual self-assessment and report on its level of compliance with 'good practice'. 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 where the committee has:
 - promoted the principles of good governance and their application to decision making
 - contributed to the development of an effective control environment
 - supported the establishment of the arrangements for the governance of risk and for the effective arrangements to manage risks
 - advised on the adequacy of the assurance framework and considered whether assurance is deployed efficiently and effectively
 - supported the quality of the internal audit activity, particularly by underpinning its organisational independence
 - aided in the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements
 - supported the development of robust arrangements for ensuring value for money
 - helped the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk

REVIEW OF THE COMMITTEE'S EFFECTIVENESS

6. In discussion with the Chair of the Audit Committee the self-assessment checklist of 'good practice' was completed along with the self-evaluation of the 'effectiveness of the audit committee' assessment. Both were then shared in part with attendees (4) of the members training session held in August 2018 where the role of the Audit Committee was specifically covered.
7. There was only one area where it was deemed that the committee was not functioning as compliant with 'good practice'. This area relates to the committee's role on assessing the adequacy of the assurance framework, including partnerships and collaboration arrangements. At present there is no information presented to the committee for areas of assurance obtained from outside of the council and therefore they are unable to form an opinion on the

overall arrangements in place. Assurance Mapping will however form part of the role of the Internal Audit section with effect from April 2019.

EVIDENCE OBTAINED TO SUBSTANTIATE THE ASSESSMENTS

8. 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.
9. The committee's membership now totals six with a vacancy for a seventh member. The political balance is in line with guidance and good practice.
10. 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 and the annual overall audit opinion. 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 relate to 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 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 regular updates on the performance of the council's treasury management activity.
 - 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 Financial Regulations and Contract Standing Orders and approves any proposed changes to them.
 - Annual reports on the level of whistle blowing and counter fraud activities within the council.
 - Annual progress report on property acquisitions made by the council.
11. All reports are received and are challenged by members of the committee, including on occasions requesting the attendance of relevant Directors who are held to account and asked to explain performance variances. When required the committee has also sought further assurance around risk exposure by means of additional updates at key intervals.

STRATEGIC CONTEXT

12. 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 independent scrutiny of the council's 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

13. 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

14. 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

15. 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

16. 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

17. The committee note this report on its activities during the last financial year.

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