

**PERTH AND KINROSS COUNCIL****Audit Committee****2 April 2014****AUDIT COMMITTEE REVIEW OF EFFECTIVENESS****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents a summary of the outcomes from the Audit Committee's review of its effectiveness.

**1. BACKGROUND**

- 1.1 CIPFA's 'Audit Committees: Practical Guidance for local Authorities and Police' recommends that Audit Committees should periodically review its effectiveness. It also states that Audit Committees should report regularly on their work and at least annually on an assessment of its performance
- 1.2 A facilitated review of effectiveness was undertaken in March 2014 using as its foundation document the Audit Committee Role and Remit as approved by Council in May 2013 [Report 13/224 refers]. The Role and Remit document is attached as an appendix to this report. In addition a CIPFA toolkit for Local Authority Audit Committees was provided for information.

**2. OUTCOME OF THE REVIEW**

- 2.1 The Audit Committee agreed that the Role and Remit document was fundamentally fit for purpose and was being adhered. However, there was scope to clarify the understanding of their role in relation to risk management, which currently reports directly to Scrutiny Committee.
- 2.2 The Audit Committee review highlighted a number of areas where there was scope for additional elected member development sessions to clarify members understanding of key concepts. These included risk management, the control environment of the Council and appropriate questioning.
- 2.3 CIPFA guidance states that Audit Committees should report annually on their work, however this has not occurred before.

**3. CONCLUSION AND RECOMMENDATION**

- 3.1 It is recommended that the Role and Remit of the Audit Committee is endorsed as remaining fit for purpose for 2014/15.

- 3.2 It is recommended that the Chief Internal Auditor works with Democratic Services to develop a programme of development in line with the findings of the self-assessment as outlined in 2.2 above.

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
<b>Resource Implications</b>	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
<b>Assessments</b>	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
<b>Consultation</b>	
Internal	Yes
External	None
<b>Communication</b>	
Communications Plan	None

### 1. Strategic Implications

#### 1.1 Corporate Plan

- 1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

- 2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## 3. **Consultation**

### 3.1 Internal

- 3.1.1 The Chief Executive and Head of Finance have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## 3. **APPENDICES**

Appendix - Audit Committee Role and Remit

Perth & Kinross Council

The Audit Committee's Role and Remit					
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## 1 Introduction

- 1.1 This document describes the way in which Perth & Kinross Council's Audit Committee is intended to operate, following the principles set out in CIPFA's 'Audit Committee Principles in Local Authorities in Scotland – A Guidance Note' (2004) ['the Guidance Note']. It also draws upon CIPFA's 'Public Sector Internal Audit Standards' ['the PSIAS'].
- 1.2 It should be read in conjunction with the provisions relating to the Audit Committee contained in the Council's Scheme of Administration.
- 1.3 This document describes:
- i the Audit Committee's remit;
  - ii the nature of its membership;
  - iii the conduct of its meetings;
  - iv its role and responsibilities in respect of decision-making;
  - v its interaction with the Council's Internal Audit service;
  - vi its interaction with the appointed external auditor;
  - vii the arrangements for its approval and review.

## 2 Remit of the Audit Committee

- 2.1 The role and focus of the Audit Committee is to scrutinise, on behalf of the elected members of the Council, all aspects of the Council's control environment. It promotes and monitors improvements in the control environment. It achieves this primarily through interaction with the Council's internal and external auditors and also with Council officers.
- 2.2 The Council's control environment comprises its systems of governance, risk management and internal control. The Audit Committee's role will extend to the whole of the Council's control environment.

## Perth & Kinross Council

The Audit Committee's Role and Remit					
Version:	2.0	Approved:		Review By:	

### 2.4 The control environment exists in order to ensure:

- i the clarity, monitoring and achievement of the Council's objectives;
- ii compliance with the relevant laws, regulations, policies, plans and procedures;
- iii the economical, efficient, effective and equitable use of the Council's resources;
- iv proper financial management of the Council, including the production of published accounts;
- v proper performance management and continuous improvement.

## 3 The Audit Committee's Membership

### 3.1 The Audit Committee will include seven elected members of the Council.

### 3.2 The Audit Committee will, on at least an annual basis, review the effectiveness of its structure in achieving its aims and objectives and may make a recommendation concerning any changes that it considers necessary.

### 3.3 In order to be effective, the Audit Committee requires the active involvement of its members. Audit Committee members should possess the following attributes:

- i independence of view - each member should be prepared to arrive at and express an objective point of view regardless of political affiliations;
- ii a preparedness to question and challenge management and auditors;
- iii a good understanding of the Council's control environment;
- iv sufficient technical knowledge to enable effective communication with internal and external auditors;
- v a sense of proportion, i.e. the ability to distinguish those matters that may have a significant impact on the achievement of the Council's objectives;

## Perth & Kinross Council

The Audit Committee's Role and Remit					
Version:	2.0	Approved:		Review By:	

vi the confidence and respect of other members in exercising the Audit Committee's role on their behalf;

vii a determination to impose a high standard of probity upon all the Council's activities.

3.4 It is desirable that at least one Audit Committee member has a financial background, in order to facilitate scrutiny of the External Auditor's annual report and accounts.

3.5 The Convener of the Audit Committee should promote open debate during meetings, in order to maximise the contribution of each member.

3.6 The Audit Committee will, on at least an annual basis, consider the training and development needs of its members in order to ensure that it has the full range of knowledge and skills to carry out its function effectively. It will make recommendations to the appropriate senior officers regarding the provision of suitable training and development activities and will review their effectiveness.

## 4 Audit Committee Meetings

4.1 Audit Committee meetings will be conducted in a manner consistent with the guidance of the Head of Democratic Services regarding compliance with the Council's Standing Orders and Scheme of Administration.

4.2 Wherever possible, meetings will be timetabled sufficiently in advance to allow the effective planning of the work that supports the Audit Committee's activities. The timing of meetings will take into account the need to consider specific reports at certain times of the year, for example:

i Internal Audit's Strategy and annual plan;

ii the Chief Internal Auditor's annual report on the control environment;

iii the external auditor's end-of-year report and management letter.

4.3 The Convener of the Audit Committee may call additional meetings of the Committee at any reasonable time, in order to deal with specific items of business. The Chief Internal Auditor and the appointed external auditor may request that such a meeting be held.

## Perth & Kinross Council

The Audit Committee's Role and Remit					
Version:	2.0	Approved:		Review By:	

- 4.4 The Chief Internal Auditor and the Council's external auditor may place a relevant item on the agenda of any meeting of the Audit Committee.
- 4.5 The Chief Internal Auditor will be the principal professional advisor to the Audit Committee. As such, the Chief Internal Auditor is expected to attend all meetings of the Audit Committee, except in the case of reasonable absence from work. Where necessary, a suitably qualified and experienced Internal Auditor will exercise the responsibilities of the Chief Internal Auditor relating to Audit Committee meetings.
- 4.6 The Audit Committee shall require the attendance at its meetings of any Council officer that it considers to be necessary. Officers attending the Audit Committee will provide such explanations or information as is necessary to enable the Audit Committee to fulfil its remit.
- 4.7 In respect of an agenda item being considered by the Committee, the Audit Committee shall require that any Council record (in whatever form) is made available to it, where it considers this to be necessary. This right will be limited only by the advice of the Head of Legal Services regarding the legality of making any such documents available.
- 5 Decision-Making**
- 5.1 It is the responsibility of the Council and its senior officers to maintain the control environment by putting in place appropriate internal controls relating to the activities for which they are responsible. The Audit Committee is not an executive body, in the sense that it makes decisions that directly impact upon the control environment. It achieves its aims and objectives through independent scrutiny, challenge, persuasion and reporting.
- 5.2 Where the Audit Committee decides that action is necessary in some respect, it will normally seek to achieve this by agreement with the relevant officer. Where the Audit Committee considers it to be necessary (for example, where there has been a significant breakdown in control or where there has been a failure to implement an agreed course of action), it may, subject to the guidance of the Head of Democratic Services, instruct that a report be submitted to the Council, or to any Council officer or committee, providing information and/or making a recommendation for action.



The Audit Committee's Role and Remit					
Version:	2.0	Approved:		Review By:	

## 6 Internal Audit

6.1 Internal Audit will normally be the principal means whereby the Audit Committee acquires information on the adequacy of the Council's control environment.

6.2 Internal Audit's role within the Council will be described in an 'Audit Charter' document (Internal Audit Terms of Reference). The Audit Committee will review this document and approve amendments as necessary.

6.3 The relationship between the Audit Committee and Internal Audit will be one of mutual assistance - Internal Audit will provide the Audit Committee with a professional opinion on the control environment; the Audit Committee will ensure that Internal Audit's work is made effective through rigorous review and follow-up of the matters brought to its attention.

6.4 The Chief Internal Auditor will:

- i produce an Audit Strategy and annual plan for the Audit Committee's consideration and approval;
- ii report to the Audit Committee on Internal Audit's performance, including its progress in achieving the planned audit work;
- iii report to the Audit Committee on the results of audit work, drawing attention to any significant weaknesses in the control environment and any unresolved issues;
- iv report to the Audit Committee on the results of Internal Audit's 'follow-up' work, drawing attention to any significant outstanding issues;
- v highlight to the Audit Committee where there are inappropriate restrictions placed on Internal Audit in terms of either scope or resources; and
- v report to the Audit Committee annually in accordance with the requirements of the PSIAS, giving an opinion on the Council's control environment.

6.5 The Audit Committee will:

Perth & Kinross Council

The Audit Committee's Role and Remit					
Version:	2.0	Approved:		Review By:	

- i consider and approve Internal Audit's Strategy and annual plan and satisfy itself that an appropriate methodology has been followed;
- ii scrutinise Internal Audit's progress and performance;
- iii ensure that it is satisfied that all significant or unresolved issues arising from Internal Audit reports (including 'follow-up' work and the annual opinion) are being satisfactorily addressed;
- iv review and safeguard Internal Audit's operational independence in line with the PSIAS in order to ensure the impartiality of its advice to the Audit Committee.

## 7 External Audit

- 7.1 The Council's external auditor is appointed by the Accounts Commission, rather than by the Council itself. The appointed external auditor is, therefore, independent of the Council. The role of the Audit Committee, in connection with external audit's work, is one of liaison and co-ordination as well as scrutiny.
- 7.2 The Audit Committee will ask the Council's external auditor to present periodic work plans and will scrutinise these to ensure that there is an appropriate degree of co-ordination with the work of Internal Audit.
- 7.3 The Audit Committee will ask the Council's external auditor to present the findings arising from their work and will scrutinise and follow up the action taken in response by management, in the same manner as described for Internal Audit (6.5 above).
- 7.4 The Audit Committee will be the appropriate forum for:
  - i receiving reports relating to any significant or unresolved issues in connection with the drawing up, auditing or certifying of the Council's annual accounts, subject to a decision by the Council;
  - ii receiving the appointed external auditor's annual report to members.

Perth & Kinross Council

The Audit Committee's Role and Remit					
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8 Approval and Review

- 8.1 The Audit Committee will review this document at least every three years. It may at any time make a recommendation to the Council regarding the approval of such changes as it considers to be appropriate.

