



# **Audit Committee Handbook**

**March 2018**



## Foreword

This handbook has been produced to provide information to assist Members of the Audit and Governance Panel in the performance of their Audit Committee functions. (A glossary of terms has been included as [Appendix A](#).)

The Council is accountable to the public for the stewardship of funds under its control. The Council is therefore responsible for maintaining proper accounting records, preparing the financial statements, safeguarding assets, taking reasonable steps for the prevention and detection of fraud and other irregularities and for managing its affairs to secure the economic, efficient and effective use of resources.

Audit Committees are not just the concern of auditors; they are about the governance, financial reporting, and performance of the whole Council. Audit Committees are a critical component in the overall corporate governance process. Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

Effective Audit Committees help to raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They enhance public trust and confidence in the financial governance of a Council.

The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, to undertake 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, and to oversee the financial reporting process.

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## **1. Introduction**

- 1.1 The principles of accountability, transparency and openness are central to the work of the Council and monitoring and auditing Council functions and activities is critical to ensuring these values are upheld.

\* 'All Councils should not only have Audit Committee mechanisms in place, but they should be committed to making sure that they are effective'

*\*Audit Scotland overview report 2001/02)*

- 1.2 The requirement for an internal audit function is implied in Section 95 of the Local Government (Scotland) Act 1973, which requires that authorities 'make arrangements for the proper administration of their financial affairs'. In addition, Scottish Office Circular 5/85 states that effective internal audit is regarded as a matter of good practice.
- 1.3 In South Ayrshire Council the statutory role of proper officer for administration of the Council's financial affairs ('the Section 95 Officer') is undertaken by the Head of Finance and ICT, who is key to discharging these requirements. To be truly effective, this officer requires an effective Audit Committee to provide support and challenge as well, of course, as an adequate and effective internal audit service.

## **2. Purpose**

- 2.1 The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, and to undertake 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.

## **3. Constitution and Objectives**

- 3.1 In South Ayrshire Council, the Council's Standing Orders and Scheme of Delegation determine which Panel of the Council will fulfil the function of Audit Committee. Currently this role is assigned to the Audit and Governance Panel. This Panel will meet every eight weeks, as part of the Council Committee cycle. It comprises eight members, and members of the Council's Leadership Panel are ineligible for membership. The Chair of the Panel may be (i) a Councillor (who is not a member of the Administration) or (ii) a lay person appointed following a public recruitment exercise as may be directed by the Council from time to time.
- 3.2 The Panel is attended by the Chief Internal Auditor and the Section 95 Officer. The Panel may decide that the Chief Internal Auditor (or any other officer) should be excluded from either the whole meeting or for a particular item on the agenda. The reason for exclusion should be made known to both the Chief Internal Auditor and the Section 95 Officer.
- 3.3 The Chief Internal Auditor may report directly to the Chair of the Panel if deemed necessary, and it is regarded as good practice for the Panel to meet with Internal and External Audit at least once during the annual cycle of meetings in the

absence of other officials to discuss issues of a confidential or sensitive nature. This is currently operated via an informal arrangement.

3.4 The Panel has the authority to require the attendance of any Portfolio Holder or officer of the Council, to discuss any audit matters relating to their areas of control.

3.5 The Panel Members will seek to satisfy themselves that management has appropriate arrangements in place to:

- maintain and operate a rigorous regime to ensure best value and continuous improvement
- secure good stewardship of the Council's resources including arrangements for internal audit, risk management and financial control; and
- keep under review the Council's local Code of Corporate Governance (currently through the Delivering Good Governance Framework)

#### **4. Duties and Functions**

4.1 The recommended duties of an Audit Committee are set out in CIPFA's Audit Committee Toolkit. The delegated duties and remit of the Audit and Governance Panel closely follow these and are set out in full at [Appendix B](#).

#### **5. Operation of the Panel**

5.1 The Audit Committee exists to provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the Council, including the scrutiny function, is operating effectively.

5.2 Although Panels and Committees of the Council are by law open to the public, there will be matters which will require to be heard in private because they deal with either exempt or confidential information, both of which are defined in legislation. Regard should, however, be given to the principles of openness and inclusiveness. The provisions of the Council's Standing Orders Relating to Meetings will apply to the Audit Committee as they do to other Panel and Committee meetings.

#### **6. Features of an Audit Committee**

6.1 CIPFA recognises that good Audit Committees will be characterised by:

- a strong chair – displaying a depth of skills and interest;
- unbiased attitudes – treating auditors, the executive and management equally;
- the ability to challenge the executive (leader, chief executive or combination) when required; and
- a membership that is balanced, objective, independent of mind, and knowledgeable.

## 6.2 Other features of an effective Committee include:

- meetings are characterised by free and open discussions by all Members without political influences being displayed;
- decisions are reached promptly, on all matters put before the Committee;
- financial understanding is displayed by one or more of the Members when considering issues;
- agenda papers are circulated far enough in advance of meetings to allow adequate preparation by Members; and
- a role is displayed in monitoring and, where necessary, ensuring compliance with, audit recommendations.

## 7. Benefits of the Committee

### 7.1 CIPFA identifies that benefits to be gained from operating an effective Audit Committee include:

- raising greater awareness of the need for internal control and the implementation of audit recommendations;
- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and the independence of internal and external audit and any other similar review process; and
- providing additional assurance through a process of independent and objective review.

## 8. Relationships with Officers

### 8.1 *Head of Finance and ICT*

Whilst CIPFA stresses the importance of the role of a Council's Finance Director and that officer's relationship with the Audit Committee, in South Ayrshire Council (as in a number of Scottish councils) the traditional 'Finance Director' role has developed and changed over time.

The Council's Section 95 Officer (Head of Finance and ICT) undertakes the role previously assigned to the 'Finance Director' and has an important relationship with the Panel.

CIPFA's 'A Statement on the Role of the Finance Director' states that one of the finance director's key roles is 'maintaining strong financial management underpinned by effective financial controls'.

The Section 95 Officer should be the key point of contact for Audit Committee Members. The Committee may need advice from this officers on most, if not all, of the matters taken to it. Thus, the Head of Finance and ICT will normally be

expected to attend all meetings to fulfil this function which, in turn, will give the Committee additional credibility.

Planned, regular, interaction between the Section 95 Officer and the Audit Committee is set out in the table below.

	<b>Section 95 Officer</b>	<b>Audit Committee</b>
Annual accounts and their audit	Closure of accounts in accordance with policies, standards etc, and liaison with External Audit	Receipt and review, on behalf of the Council (and the public), of audit certificate and annual report
Internal and External Audit reports	Provide technical advice and support to the Committee as required	Independent scrutiny of reports and follow through of recommendations

## 8.2 **Chief Executive and Directors/Heads of Service**

Directors and Heads of Service are accountable to Members for the running of their Directorates and therefore for addressing the findings of audit reports. In addition, they are responsible for signing off the action plans for implementing audit recommendations and as such may be invited to the Audit Committee to discuss any audit matters relating to their areas of control.

The Chief Executive has the role of maintaining the strategic link between Elected Members and all other parties who may attend Audit Committee meetings. The Depute Chief Executive and Director – People also has a line management responsibility for internal audit, with the Chief Internal Auditor having direct and unequivocal access to the Chief Executive.

## 9. **Relationships with Audit Bodies**

### 9.1 **Internal Audit**

#### *Definition*

**Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.**

***(Public Sector Internal Audit Standards (PSIAS) 2013)***

The remit, structure and working practices of Internal Audit are provided in the Internal Audit Charter.

#### *Internal Audit’s Relationship with the Audit Committee*

The shared interests of the Committee and Internal Audit mean that there needs to be an effective working relationship between them. There are three elements to that relationship:



- (a) the approval (but not direction) of, and monitoring of progress against, the Internal Audit Charter and Annual Plan;
- (b) using the results of Internal Audit's work to satisfy some of the Audit Committee's objectives (and vice versa);
- (c) aligning the operations of the Committee and Internal Audit, as far as possible without compromising their individual responsibilities, to make best use of resources.

To facilitate the work of the Committee, the Chief Internal Auditor shall:

- (a) attend its meetings, and contribute to the agenda;
- (b) participate in the Committee's review of its own remit and effectiveness;
- (c) ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (for example, compliance with the Public Sector Internal Audit Standards, annual work programmes, progress reports);
- (d) report the outcomes on internal audit work, in sufficient detail to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- (e) establish if anything arising from the work of the Committee requires consideration of changes to the audit plan, and vice versa; and
- (f) present an annual internal audit report including an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

## 9.2 **External Audit**

### *Definition*

External Audit have a different focus from Internal Audit; they report to external stakeholders in addition to officers and Members of the Council. They also have to communicate relevant matters relating to the audit of the financial statements to those charged with governance.

The differences between internal and external audit are shown in the table below.

<b><i>Internal</i></b>	<b><i>External</i></b>
Main concerns: effectiveness of internal controls and value-for-money	Main concerns: accuracy of final accounts, value-for-money and best value
Not a statutory function in Scotland	Set up by statute
Set up by and reports to management	Appointed by the Accounts Commission

<b><i>Internal</i></b>	<b><i>External</i></b>
Responsible to management and only indirectly to Members, Council tax payers etc	Responsible to the ultimate 'owners' of the organisation – for example, Council tax payers, via the Accounts Commission
Available during Council business hours	Audits an organisation for a set period of time each year, unless paid for more
Good knowledge of Council systems and personnel	High-level knowledge of systems and personnel, but better knowledge of broader legislative rules and regulations
Detailed audits. Using systems approach. Low level materiality limits	Broad audits. Concentrates on material items and as per set materiality thresholds

### ***External Audit's Relationship with the Audit Committee***

The Audit Committee shall be required to:

1. review the external audit plan;
2. review the arrangements for ensuring that there is effective liaison between Internal and External Audit;
3. review all matters relating to external audit, including audit planning, action points and all relevant external audit reports received by the Council, including national reports, where appropriate, and the 'How Councils Work' series;
4. review the audit certificate, and any matters reported from the audit of the annual accounts; and
5. review the monitoring and implementation of External Audit recommendations, and ensure that management takes appropriate action to implement the agreed recommendations.

### **9.3 Accounts Commission**

#### ***Definition***

The Accounts Commission is a statutory, independent body appointed by Scottish Ministers which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

Detail on the responsibilities of the Accounts Commission, which include the audit of Best Value and Community Planning, are given in its website at <http://www.audit-scotland.gov.uk/about/ac/> .

## *The Accounts Commission's Relationship with the Audit Committee*

The Accounts Commission appoint external auditors for a period of 5 years. South Ayrshire's external auditors for the period 2016/17 to 2020/21 are Deloitte LLP.

### **10. Relationships with Council Initiatives**

#### **10.1 Corporate Governance**

##### *Definition*

Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities, and incorporates the way in which a Council manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation.

Three fundamental principles of corporate governance apply equally to all public sector bodies – openness, integrity and accountability.

##### *The Role of the Audit Committee*

Audit Committees have a key role to play in corporate governance and should be clearly integrated into the Council's governance framework. This includes consideration of the effectiveness of the Council's scrutiny arrangements and response to best value duties.

#### **10.2 Risk Management**

##### *Definition*

Risk can be defined as the combination of the probability of an event and its consequences. In all types of undertakings, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside).

Risk management is a planned and systematic approach to identifying, evaluating and responding to risks and providing assurance that responses are effective.

Internal control and risk management are increasingly recognised as important elements of good corporate governance, and it is expected that all local authorities develop and maintain robust systems for identifying and evaluating all significant risks.

For more detail see Re-Wired (currently under Resources, Governance and Organisation/ Property and Risk) .

##### *The Role of the Audit Committee*

To ensure that the Council has an appropriate corporate risk management strategy drawn up, and that risk management procedures are properly carried out. The Committee should continually challenge and review the risk management arrangements, to ensure that there is a robust system in place for

identifying and managing those threats which could have a significant impact on the successful delivery of the Council's objectives.

The Committee should be provided with regular reports on the risk management process, in order to be able to fulfil their risk management responsibilities.

#### *Risk Management and Internal Audit*

The Internal Audit section has responsibility for including any areas of significant risk in its internal audit work plans. The audit section should give assurances on the evaluation of risk and the risk management process, including reviewing the management and reporting of risks. Internal Audit should not undertake imposing the risk management process, setting the risk appetite, and actually managing risks and taking risk decisions.

### **10.3 Strategic Planning Framework**

The Audit and Governance Panel's remit includes keeping under review the Council's local Code of Corporate Governance (under the Delivering Good Governance Framework) and ensuring arrangements for its review and continuing relevance and the publication of an Annual Governance Statement confirming how well the Council is complying with the framework. A report to the Panel at the year end will give Members the opportunity to assess progress against the various elements. The Panel will also initiate, and review the outcomes of, the bi-annual survey of Members in relation to governance issues.

## **Glossary of Terms**

### **Audit Certificate**

The document which contains the opinion of the auditor of an organisation's accounts.

### **Audit Committee**

Audit Committees monitor and review both the risk, control and governance processes that have been established in an organisation, and the associated assurance processes. This is done through a process of constructive challenge.

### **Audit Scotland**

Audit Scotland is the statutory body that provides services to the Auditor General and the Accounts Commission, including undertaking value for money studies on their behalf. Audit Scotland also provides guidance and support to all auditors and, on behalf of the Auditor General and the Accounts Commission, monitors their performance through a rigorous quality appraisal process.

### **Best Value**

To secure continuous improvement, by challenging their existing ways of delivering services, comparing their costs with other authorities and external bodies, consulting with consumers and stakeholders over the services that should be delivered and where appropriate subjecting services to competition from outside.

### **CIPFA**

The Chartered Institute of Public Finance Accountants is a professional accountancy body which specialises in the Public Sector.

### **Corporate Governance**

The framework that ensures that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient and ethical manner.

### **External Audit**

External auditors check that the annual accounts of a public sector body properly reflect the financial year, funds were spent in accordance with relevant regulations or directions, and that the body achieves the best possible value for public money.

### **Internal Audit**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **Internal Control**

The systems an organisation has in place to manage and mitigate risk.

## **Audit and Governance Panel**

### **Remit**

- 1.1 To act as the Audit Committee of the Council within the remit and powers as set out in detail in the Audit Committee Handbook approved by Council, and including:
- (1) considering the overall adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements, including the associated anti-fraud and anti-corruption arrangements;
  - (2) undertaking regular scrutiny of the Council's risk register and challenging the effectiveness of the risk mitigations put in place by risk owners to reduce the risks in line with the Council's risk tolerance;
  - (3) receiving and considering the Council's unaudited Annual Accounts (including the statements which form part of the Annual Accounts) as submitted to the auditor by the proper officer (unless received and considered by full Council);
  - (4) receiving and considering the Annual Report on the Audit (Report to Those Charged with Governance), prior to its submission to full Council for information;
  - (5) receiving, considering and approving the audited Annual Accounts (including the statements which form part of the Annual Accounts) by no later than 30 September immediately following the financial year to which the accounts relate (unless received, considered and approved by full Council), and in so doing to have regard to any report made or advice provided on the Annual Accounts by the proper officer or appointed auditor;
  - (6) ensuring that any issues arising from the process of drawing up, auditing and certifying the Annual Accounts are properly dealt with;
  - (7) undertaking the same role and remit as set out in paragraphs (3), (4), (5) and (6) above in relation to the Annual Accounts of charitable trusts administered by the Council and of which Councillors are Trustees;
  - (8) receiving and reviewing summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
  - (9) receiving the annual report of the Chief Internal Auditor and monitoring the performance of the Internal Audit service;
  - (10) receiving and considering all reports of the external auditors, Audit Scotland, Accounts Commission (and other inspection agencies, where not within the remit of the Leadership Panel), including reports relating to charitable trusts administered by the Council and of which Councillors are Trustees, and, where appropriate, remit to another Scrutiny Panel for further detailed scrutiny; and

- (11) monitoring management action in response to the issues raised by the external auditors, including but not limited to follow-up to Best Value Audit reports.
- 1.2 To deal with called-in decisions of the Leadership Panel for further discussion, consideration and investigation, all in accordance with the provisions of the Scrutiny Handbook, and to:
    - (1) agree the Leadership Panel decision(s); or
    - (2) continue the matter to the next meeting of the Panel (which may include an additional meeting held in terms of Standing Order 35.3 (2) for further discussion, consideration, investigation or agreement; and/ or
    - (3) refer the matter back to the Leadership Panel, with recommendations, for final deliberation.
  - 1.3 To keep under review the Council's local Code of Corporate Governance (in terms of the Delivering Good Governance Framework) and to ensure arrangements for its review and continuing relevance leading to the publication of an annual statement as part of the Council's Annual Accounts confirming how well the Council is complying with the framework.
  - 1.4 To monitor and review the effectiveness of the Council's Scrutiny Panel arrangements having regard to the Council's powers and duties under Best Value, continuous improvement and effective resource management in the provision of services, performance management frameworks, value for money, and business improvement/ re-design.
  - 1.5 To promote and maintain high standards of conduct by all Elected Members of the Council, including consideration of the management and operation of ethical standards as set out in the Councillors' Code of Conduct within the Council, and recommending to Council, if appropriate, the adoption of any protocols relating to Members' conduct supplementary to the Councillors' Code of Conduct, and to consider and advise the Council on any requirements for supplementary training or additional support for Members in relation to ethical standards or any other matters.
  - 1.6 To consider any issues which are referred to it by the Council or Leadership Panel for detailed scrutiny.
  - 1.7 To ensure that areas of concern arising from the Audit Committee function are reported to Council, including those that may require further scrutiny either by the Panel or Council.
  - 1.8 To make recommendations to the Leadership Panel or Council (as appropriate) on matters arising from the outcome of the scrutiny processes carried out by the Panel including recommendations for areas for Service Review in accordance with the Council's approved [Framework](#).