

Report

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To:	South Lanarkshire Council
Date:	27 June 2018
Prepared by:	Executive Director (Finance and Corporate Resources)

Subject:	Review of Risk and Audit Scrutiny Forum
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1. Purpose of Report

1.1. The purpose of the paper is to:-

- ◆ Advise of the findings of the Review of the current arrangements for the Risk and Audit Scrutiny Forum against the Chartered Institute of Public Finance and Accountancy (CIPFA) best practice guidance

2. Recommendation(s)

2.1 The Council is asked to approve the following recommendation(s):

- (1) that the content of the CIPFA Best Practice Guidance is noted;
- (2) that the findings of the benchmarking exercise with other local authorities, outlined at Appendix 2, are noted;
- (3) that the Risk and Audit Scrutiny Forum be renamed the Risk and Audit Scrutiny Committee and be given full decision-making powers; and
- (4) that the enhanced Terms of Reference for the Risk and Audit Scrutiny Committee, attached at Appendix 3, be approved.

3. Background

3.1. Following Audit Scotland's comparison of the Risk and Audit Scrutiny Forum's arrangements against the then current CIPFA best practice guidance as part of the audit of the 2016/2017 accounts, Audit Scotland, the Council's external auditors, advised the Council of its opinion that the Risk and Audit Scrutiny Forum's current terms of reference were limited as it had not been delegated the responsibility to approve matters such as the annual accounts.

3.2 The Forum currently does not have decision making powers. It considers audit reports and other relevant matters and reports to the Executive Committee.

3.3 On 30 August 2017, the Executive Committee approved a recommendation that a review be undertaken of the current arrangements in place for the Risk and Audit Scrutiny Forum against CIPFA Best Practice and that the findings of the review be reported to a future meeting of the Council.

4. Risk and Audit Scrutiny Forum Terms of Reference

4.1 The current powers and responsibilities of the Risk and Audit Scrutiny Forum are attached at Appendix 1 and are as follows:-

- ◆ To consider and monitor the implementation of the annual Audit Plan together with the impact and effectiveness of the Audit Planning process.
- ◆ To review and consider all relevant matters from internal and external audit reports.
- ◆ To consider and review the external audit planning memorandum
- ◆ To monitor the Council's Good Governance and risk management responsibilities.

5. The Chartered Institute of Public Finance and Accounting Best Practice Guidance

5.1 CIPFA guidance advises that the three fundamental principles that define the expression "audit committee principles" are that there should be effective mechanisms in place to provide:-

- ◆ independent assurance of the adequacy of the risk management framework and the associated control environment within the authority
- ◆ independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment
- ◆ assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with

5.2 In terms of delivering the audit committee principles, CIPFA guidance also states that the audit committee should have clear terms of reference or a set remit which has been agreed by the full Council. It states that, if the committee is charged with delivering each of the audit committee principles, its remit will include:-

- ◆ **forming a judgement on risk management procedures** within the Council and the impact of these on internal controls
- ◆ **consideration** of non-financial performance where this affects the authority's exposure to risk and weakens the control environment
- ◆ **approval and subsequent monitoring** of the internal audit strategy and periodic internal audit plan. A product of this process will be the formation of a view by the committee of the effectiveness of internal audit; and,
- ◆ **consideration** of the annual statement of accounts

5.3 CIPFA guidance further states that, in respect of audit committees:-

- ◆ consideration should be given to selecting a Chair from outwith the administration
- ◆ the Committee may function more effectively with a small membership
- ◆ membership of the audit committee should reflect the overall political balance of the Council
- ◆ the audit committee should submit a periodic or annual report to Council
- ◆ the frequency of meetings will be prescribed within the council's committee cycle
- ◆ the audit committee should not play a role in the day to day operational or strategic management of the authority

- 5.4 In relation to annual accounts, CIPFA Guidance states that there should be an effective mechanism in place to provide assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with. This is to reflect the statutory nature of this key aspect of financial accountability. The guidance suggests that the audit committee may be given a role in providing an overview of the progress from commencement of compilation to the receipt of the audit certificate but recognises that it is a matter for each local authority to determine the extent of the audit committee's role in the process and that it may be that the role can be limited to a consideration of progress of the process overall without an active consideration of the statement of accounts.
- 5.5 The 2018 Guidance provides in relation to decision making powers and delegations that an audit committee is a non-executive body whose role is to make recommendations. It goes on to indicate that the impact of the committee is through influence and persuasion rather than direct decision making and that its effectiveness does not depend on the delegation of powers. It does advise, however, that a Council may include direct delegations to the Audit committee to approve as well as review and monitor for example the Annual Governance Statement and financial statements on behalf of the Council.
- 5.6 The CIPFA Survey on Audit Committees in Local Authorities and Police 2016 found that 85% of Councils had audit committees that reported to the full council. It explained that whereas an audit committee reporting to an Executive Committee may be advantageous if it increases the likelihood of its recommendations being addressed, it has two disadvantages from a wider governance perspective, in that it is not reporting to the body charged with governance, the full Council and therefore is not assisting the Council to discharge its governance responsibilities and secondly it may be perceived by the public as not being independent of the Executive.
6. **South Lanarkshire Council position**
- 6.1 Following the review of the Council Annual Accounts 2017-18, Audit Scotland recommended that the Council review the reporting line of the Forum and consider, with reference to best practice, whether powers to approve matters such as the audited annual accounts were appropriate.
- 6.2 The current terms of reference of the Risk and Audit Scrutiny Forum are set out at paragraph 4.1 above and in Appendix 1.
- 6.3 The Council's Risk and Audit Scrutiny Forum currently follows CIPFA guidance detailed in paragraph 5.2 and 5.3 above in relation to:-
- ◆ selection of the Chair from outwith the administration
 - ◆ political balance
 - ◆ smaller membership
 - ◆ frequency of meetings
 - ◆ clear Terms of Reference agreed by the Council
- 6.4 The Council's Risk and Audit Scrutiny Forum deviates from CIPFA guidance in so far as, firstly, it does not have decision making powers, in particular, it does not approve the internal audit strategy and internal audit plan but endorses both for approval by the Executive Committee, and, secondly, it does not report to the full Council.

7 Practices Adopted by Other Scottish Local Authority Audit Committees

- 7.1 CIPFA guidance recognises that all councils are audited and exercise some form of self-scrutiny but the structures that are employed to carry out these functions vary considerably.
- 7.2 An exercise was undertaken to determine practices adopted by other local authorities in Scotland in terms of audit committees. While all Scottish local authorities have an audit committee, these vary in terms of remit. Results from the benchmarking exercise are detailed in Appendix 2.
- 7.3 Most audit committees have decision making powers but the functions differ in part to the remit of this Council's Risk and Audit Scrutiny Forum.

8. Next Steps

- 8.1 With regard to decision making powers, Audit Scotland has recommended that the Council review the reporting line of the Risk and Audit Scrutiny Forum and consider, with reference to best practice, whether powers to approve matters such as the audited annual accounts are appropriate. CIPFA Guidance regarding the remit of audit committees indicates that the audit committee should approve the internal audit plan and strategy but is less clear in relation to approval of the annual statement of accounts, risk strategy and governance issues. As detailed above, practice adopted by other local authorities is also varied and CIPFA, in its guidance, recognises that local authority audit committees adopt a range of approaches and acknowledges that "there is no one model which could ever be taken as representing best practice".
- 8.2 In view of the CIPFA Best Practice Guidance, it is recommended that the Risk and Audit Scrutiny Forum be renamed as the Risk and Audit Scrutiny Committee and that it be delegated decision making powers in terms of the matters within its remit, including the power to approve the Internal Audit Strategy, the Annual Internal Audit Plan, the Annual Statement of Accounts, together with the Internal Audit Annual Assurance Report and the Annual Governance Statement as these form part of the Accounts.
- 8.3 A Terms of Reference for a renamed Risk and Audit Scrutiny Committee with decision making powers is attached at Appendix 3.
- 8.4 In terms of CIPFA guidance, the Leader of the Council, Chief Executive and Executive Director (Finance and Corporate) Resources would be required to attend the meeting of the Risk and Audit Scrutiny Committee at which the Annual Statement of Accounts and Annual Governance Statement are approved for signature.

9 Employee Implications

- 9.1 There will be the requirement to service another Committee within the Council, however, as arrangements are already in place to support the Forum, no additional employee resources are required.

10 Financial Implications

- 10.1 There would be no significant financial implications resulting from the report.

11 Other Implications

- 11.1 There are no significant implications in terms of risk or sustainability arising from this report.

12 Equality Impact Assessment and Consultation Arrangements

- 12.1 There was no requirement to carry out an Equality Impact Assessment or carry out a consultation exercise in terms of the recommendation in this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

4 June 2018

Link(s) to Council Values/Ambitions/Objectives

Fair, open and sustainable

Accountable, effective, efficient and transparent

Previous References

Executive Committee of 30 August 2017

List of Background Papers

None

Contact for Further Information

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