

**Annual Report of the Audit Committee
2014/15**

1. Background

The Audit Committee was established by the Fire Authority in January 2008. Its purpose is to provide:

- independent assurance on the adequacy of the risk management framework and the associated control environment,
- 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, and to
- oversee the financial reporting process.

The key benefits of the Committee can be seen as:

- Increasing public confidence in the objectivity and fairness of financial and other reporting.
- Reinforcing the importance and independence of internal and external audit and similar review processes.
- Providing additional assurance through a process of independent review.
- Raising awareness of the need for internal control and the implementation of audit recommendations.

The Terms of Reference for the Committee can be found at Appendix A of this report.

Audit Committee Self-Assessment/Review of Effectiveness

In order to review its effectiveness the Committee undertook a self-assessment of good practice and effectiveness exercise during the year. This was based on the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees – Practical Guidance for Local Authorities 2013 Edition, and highlighted that the Committee was operating within a recognised best practice framework.

Audit Committee Members Knowledge and Skills Framework

Each member of the Committee is currently completing a knowledge and skills framework questionnaire, giving them the opportunity to record details of their relevant experience and knowledge, and to identify areas where they felt they would benefit from additional training. Once these have been completed, the results will be summarised and reported back to the Committee.

2. Meetings

During 2014/15 the Committee met on the following dates:

• 1 September 2014
• 13 October 2014
• 19 January 2015
• 23 March 2015
• 15 June 2015

3. Members and Attendance Record

	1/09/14	13/10/14	19/01/15	23/03/15	15/06/15
Councillor Singh	√	√	√	√	√
Mr M Ager	√	X	√	√	√
Councillor Aston	√	√	√	√	X
Councillor Mottram	√	√	X	√	√
Councillor Quinnen	√	√	√	√	√
Councillor Yardley	X	X	√	X	
Councillor Lines			X	X	

Senior Officers from the Authority and the Internal Auditors are also present, and where appropriate the External Auditor will attend.

4. Business

During the year the Committee conducted the following business:

- Governance Statement - 2013/14
- Corporate Risk Register
- Audit Committee Annual Report – 2013/14
- External Audit – Audit Committee Update
- External Audit Plan – 2014/15
- Internal Audit Annual Report - 2013/14
- Internal Audit Progress Reports
- Internal Audit Charter – Annual Review
- Internal Audit Plan – 2015/16
- Review of the Effectiveness of Internal Audit
- CIPFA Audit Committee Updates
- Audit Committee – Self Assessment of Good Practice and Effectiveness
- Updates on Topical, Legal and Regulatory Issues
- Treasury Management Annual Report – 2013/14 and Mid-Year Review
- Monitoring Policies on Raising Concerns at Work – Whistleblowing Standing Order and Regulation of Investigatory Powers Act
- Audit Committee Work Programme

5. Conclusion

The Committee was able to confirm:

- That the system of internal control, governance and risk management in the Authority was adequate in identifying risks and allowing the Authority to understand the appropriate management of these risks.
- That there were no areas of significant duplication or omission in the systems of internal control, governance and risk management that had come to the Committee's attention, and had not been adequately resolved.

6. Sources of Assurance

The Committee gained assurance in order to produce the above conclusion, from the following sources:

The work of Internal Audit

The Authority's Internal Auditors gave the following opinion in their Annual Report for 2014/15:

*Based on the work undertaken during the year and the implementation by management of the recommendations made, Internal Audit can provide *reasonable assurance that the Fire Authority has adequate and effective governance, risk management and internal control processes. *We are pleased to report that this is an unqualified opinion and the highest level of assurance available to Audit Services. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes".*

The work of the External Auditors

During the year the external auditors (Grant Thornton) reported back to the Audit Committee on a number of occasions as detailed in section 4 above. No issues of any significant concern were raised.

The Compilation of the Governance Statement

The Governance Statement operated throughout the year ended 31 March 2015 and up to the date of the approval of the annual report and accounts. The systems to ensure the management of the risks have been shown to be sound.

7. The Committee's main achievements

The Committee believes its key achievements during the year were:-

- Continuing to build a good working relationship with the Authority's new external auditors Grant Thornton.
- Receiving and reviewing a number of useful sector updates from the external auditors.
- Following the final abolition of the Audit Commission, maintaining an awareness of the likely changes to the appointment of external auditors through the Local Audit and Accountability Act.
- Providing additional assurance through a process of on-going independent review.

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- Raising the profile of internal control issues across the Authority and of the need to ensure that audit recommendations are implemented.
- Regular consideration and review of the Authority's Risk Register and the Assurance Map.
- Reviewing the results of the Committee's self-assessment of good practice and effectiveness exercise, and commencing a members knowledge and skills framework exercise, based on the CIPFA models for an adequate and effective Audit Committee.
- Building the skills and knowledge of Committee members through regular technical updates and the consideration of related guidance issued by CIPFA.
- The continued presence of an independent member in order to broaden the Committee's experience and independent view point.

Appendix A

Terms of Reference for the Audit Committee

Terms of Reference were reviewed in order to ensure that they remained fit for purpose, and that they reflected guidance provided in the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees – Practical Guidance for Local Authorities 2013 Edition:

Statement of purpose

Our Audit Committee is a key component of the Authority's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our Audit Committee is to provide independent assurance to the Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

To review the Authority's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

To consider the Authority's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the Authority's framework of assurance and ensure that it adequately addresses the risks and priorities of the Authority.

To monitor the effective development and operation of risk management in the Authority.

To monitor progress in addressing risk-related issues reported to the Committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the Authority from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

Internal Audit

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

To approve risk based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- Regular reports on the results of the quality assurance and improvement programme;
- Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

To consider the head of internal audit's annual report:

- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
- The opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the annual governance statement.

To consider summaries of specific internal audit reports as requested.

To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

To contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the annual governance statement, where required to do so by the Accounts and Audit Regulations.

To support the development of effective communication with the head of internal audit.

External Audit (Grant Thornton)

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

To receive detailed training in respect of the process associated with the preparation, sign off, audit and:

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

To report to full Authority on a regular basis on the Committee's performance in relation to the terms of reference, and the effectiveness of the Committee in meeting its purpose.