



TO: Audit Committee

FROM: Head of Audit, Assurance & Procurement

DATE: 13 January 2015

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit Committee – Making it Most Effective

1. PURPOSE

To provide members with a summary of the key requirements of the CIPFA Audit Committee practical guidance and set out an action plan to review and secure changes to improve the effectiveness of the Audit Committee based on the new guidance.

2. RECOMMENDATIONS

Committee members are asked to:

- note the key requirements of the practical guidance;
- approve the action plan for making the Audit Committee most effective;
- complete the knowledge & skills framework self-assessment; and
- to receive further updates on the implementation of the action plan.

3. BACKGROUND

Audit Committees in local authorities are necessary to satisfy the wider requirements for sound financial management, which are set out in the Local Government Act 1972 and the Accounts & Audit Regulations 2011. The Chief Financial Officer (CFO) is responsible for discharging this sound financial management requirement. To be truly effective the CFO also requires an effective Audit Committee to provide appropriate support and challenge. There have been significant developments in governance and audit practice since the publication of the previous CIPFA guidance in 2005, which have required Audit Committees to adapt their remit.

4. RATIONALE

An Audit Committee is a key component of the Council's governance framework. An Audit Committee that fulfils its recommended role and function can effectively review the Council's corporate governance framework. The recommended guidance on the role and functions of an audit committee is provided by CIPFA.

5. KEY ISSUES

Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition) sets out CIPFA's view of the audit committee in relation to

governance, risk management and internal control. The guidance incorporates CIPFA's 2013 Position Statement, which sets out their view of the role and core functions of an audit committee.

The guidance looks at factors that will, in accordance with the guidance issued by CIPFA, support improvement and increase the effectiveness of an audit committee. The guidance is sub-divided into the following sections:

- Purpose
- Core Functions
- Possible Wider Functions
- Independence & Accountability
- Membership & Effectiveness

PURPOSE

The CIPFA guidance states the following:

“The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”

CORE FUNCTIONS

The guidance summarises the “core functions” of an Audit Committee as follows:

- Annual Governance Statement;
- Internal Audit;
- Risk Management;
- Assurance Framework and Assurance Planning;
- Value for Money and Best Value;
- Countering Fraud and Corruption;
- External Audit;
- Financial Reporting; and
- Partnership Governance.

POSSIBLE WIDER FUNCTIONS

The guidance suggests the following “wider” roles that can be undertaken by an Audit Committee:

- Considering governance, risk or control matters at the request of other committees or statutory officers;
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values;
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice; and
- Providing oversight of other public reports, such as the annual report.

INDEPENDENCE & ACCOUNTABILITY

The guidance does not prescribe any single model of an Audit Committee but that all should:

- Act as the principal non-executive, advisory function supporting those

- charged with governance;
- Be independent of both the executive and the scrutiny functions;
 - Have clear rights of access to other committees/functions;
 - Be properly accountable to the authority's board or equivalent body i.e. full council;
 - Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public;
 - Be able to meet privately and separately with the external auditor and with the head of internal audit;
 - Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required; and
 - Report regularly on their work, and at least annually report an assessment of their performance.

MEMBERSHIP & EFFECTIVENESS

The guidance states that good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role;
- 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;
- Unbiased attitudes – treating auditors, the executive and management fairly; and
- The ability to challenge the executive and senior managers when required.

ASSESSMENT OF EFFECTIVENESS

Audit & Assurance has completed (with the assistance of the Audit Committee vice-chair) CIPFA's Good Practice Checklist, which is appended to the Guidance. In response to each of the 20 questions we have assessed the effectiveness of the Audit Committee (see Appendix 1, to this report).

The assessment has identified 13 actions to make the Committee most effective, which are recorded at Appendix 2.

A strong theme throughout the guidance is the knowledge and skills of the Audit Committee members and CIPFA has a framework to assess this. Action 8 requires that members review their knowledge and skills to identify any future requirements for their training, guidance and support. It is therefore requested that each member completes the self-assessment, which is attached at Appendix 3.

6. POLICY IMPLICATIONS

There are no direct policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. LEGAL IMPLICATIONS

The Accounts and Audit (England) Regulations 2011 state that the Council is responsible for ensuring that financial management is adequate and effective and that the system of internal control is sound and facilitates the effective The Audit Committee has been designated as the committee charged with ensuring the on-going effectiveness of the Council's overall governance arrangements.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality or health implications arising from this report.

11. CONSULTATIONS

Executive Director (Resources & Transformation); Director of Finance & IT; and Director of HR, Legal & Corporate Services.

Contact Officer: Paul Hankinson, Audit & Assurance Manager – Ext: 5630
Date: 31 December 2014
Background Papers: CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)