



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 14 January 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Governance Committee – Effectiveness Self - Assessment

1. PURPOSE

1.1 This report presents the results of the annual assessment of compliance of the Audit & Governance Committee against recognised best practise recommended by CIPFA as well as a summary of Committee members' self-assessments. The results of the various assessments are set out in appendices 1, 2 and 3 to this report.

2. RECOMMENDATIONS

2.1 Committee members are asked to review and approve the following, as appropriate evidence to confirm the Committee's effectiveness:

- the Audit & Governance Committee's position when compared to the CIPFA good practice checklist (Appendix 1) and the additional actions noted;
- the Evaluation of Effectiveness of the Audit & Governance Committee, produced by the Head of Audit & Assurance on behalf of the Chair of the Committee (Appendix 2); and,
- the summary results from the individual Committee member self-assessments of the overall effectiveness of the Committee (Appendix 3).

3. BACKGROUND

3.1 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 2015. 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.

3.2 In 2018 CIPFA published its document, 'Audit Committees: Practical Guidance for Local Authorities and Police 2018. This replaced the previous 2013 Position Statement. The main changes are highlighted in bold in this report. The guidance includes the two checklists provided at

appendices 1 and 2 to this report. These checklists include the results of the internal assessment, and supporting evidence, for the Committee's consideration in order to conclude on the performance and effectiveness of the Committee and to identify any areas where development is needed.

- 3.3 The Guidance highlights that there have been a number of significant developments in governance and audit practice since 2013 that have emphasised the importance of the audit committee. Key developments include:
- the new Delivering Good Governance in Local Government Framework (CIPFA/Solace, 2016);
 - updates to the Public Sector Internal Audit Standards in 2016 and 2017; and
 - the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).
- 3.4 The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It notes the purpose of Audit Committees as follows:
- Audit committees are a key component of an Authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management; and
 - 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 governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3.5 The Position Statement sets out the core functions of an audit committee along with possible wider functions that a committee can undertake. It notes that organisations should adopt a model that establishes the committee as independent and effective and advises that the Committee should:
- act as the principal non-executive, advisory function supporting those charged with governance;
 - in local authorities, be independent of both the executive and the scrutiny functions **and include an independent member where not already required to do so by legislation;**
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups; and
 - be **directly** accountable to the Authority's governing body (Full Council).
- 3.6 The Position Statement notes the role of the CFO and that officer's overarching responsibility for discharging the requirement for sound financial management. The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) emphasises the importance of having an

effective audit committee to support the CFO. The CFO in a local authority must lead the promotion and delivery by the whole Authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. The Position Statement also notes that an essential role for the audit committee is to oversee Internal Audit, helping to ensure that it is adequate and effective. Both these elements are also set out in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note (LGAN).

3.7 The Guidance sets out the core functions of the audit committee and includes a model terms of reference for the committee. The core functions include the following areas:

- **Good governance and the Annual Governance Statement** – be satisfied that the Authority’s assurance statements, including the Annual Governance Statement (AGS), properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the Authority’s objectives. **Support initiatives to identify and evaluate key areas of assurance.**
- **Internal Audit** - oversee its independence, objectivity, performance and professionalism; support the effectiveness of the Internal Audit process and promote the effective use of Internal Audit within the assurance framework in the following ways:
 - receive confirmation of the organisational independence of the Internal Audit activity;
 - approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the Head of Internal Audit has been asked to undertake any additional roles/responsibilities outside of internal auditing;
 - receiving communications from the Head of Internal Audit on Internal Audit’s performance relative to its plan and other matters; and
 - giving approval to Internal Audit for any significant additional consulting services not already included in the audit plan, prior to Internal Audit accepting an engagement.
- **Risk management** - consider the effectiveness of the Authority’s risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.
- **Control environment** - monitor the effectiveness, including arrangements for ensuring value for money, **supporting standards and ethics** and for managing the Authority’s exposure to the risks of fraud and corruption.
- **External Audit** - consider the reports and recommendations of External Audit and inspection agencies and their implications for governance, risk management or control. The guidance includes advice around appointment of auditors following the change in

appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the Local Audit and Accountability Act 2014.

The audit committee's role in relation to the external audit process has three principal aspects:

- providing assurance that the external auditor team maintains independence following its appointment (examples of threats noted on Page 21 of the Position Statement);
- receiving and considering the work of external audit; and
- supporting the quality and effectiveness of the external audit process.

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA (the new appointing body) or the auditor panel (in England) or from audit quality reviews by the Financial Reporting Council. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

- **Effective relationships** - support the relationships between external audit and Internal Audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- **Financial statements** - review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit. ***The guidance highlights the revised reporting timetable and includes:*** Understanding Local Authority Financial Statements (CIPFA/LASAAC, 2016) which includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval. (Page 23 of the Position Statement)
- **Partnership governance and collaboration agreements** – where an organisation of which the Authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely to be the audit committee of the accountable body in order to support the CFO (Page 24 of the Position Statement).

New Core Function Area – Governance and Ethical Values (Page 24 of the Position Statement)

- 3.8 Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework: *“Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.”* With its core role in supporting good

governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

- 3.9 All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that: Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored. As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.
- 3.10 Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the Public Interest Disclosure Act 1998. As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.
- 3.11 The summary questionnaire results included in Appendix 3 are based on a self-assessment questionnaire used by Audit Committees in neighbouring authorities. This provides members with an alternative basis for assessing the Committee's effectiveness. The questions asked are aimed at exploring and considering other areas for assessing effectiveness compared to the more technical areas identified by CIPFA. Individual Committee member have answered these questions.
- 3.12 The details included at Appendix 3 provide a summary of the responses received from the Councillors who have been members of the Committee during the Municipal Year. This also includes a comparison with the results from the 2017/18 and 2018/19 scores. The overall results show that there is a belief by the members that the Committee is operating effectively, with average scores of satisfactory/partly agree or better for most questions.

4. RATIONALE

- 4.1 An Audit Committee is a key component of a 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 AND RISKS

5.1 CIPFA's guidance sets out its view of the Audit Committees in relation to governance, risk management and internal control. CIPFA's Good Practice Checklist, which was appended to the Guidance, is an updated version of the Checklist included in the 2013 Guidance. The Head of Audit & Assurance has completed this on behalf of the Committee. This shows that the Council's Audit & Governance Committee arrangements are largely compliant with the recommended guidance. The only areas where full compliance cannot be provided is:

- Question 7: The Committee's current terms of reference does not include reference to the ethical framework.
- Question 18: The Audit & Governance Committee has not obtained feedback from others interacting or relying on its work.

However, it is recognised that that the Committee's Annual Report is presented to Full Council. This presents an opportunity to obtain feedback from Councillor colleagues at least annually.

5.2 The evaluation of effectiveness document (Appendix 2) has been completed by the Head of Audit & Assurance. The previous version was appended to the Audit & Governance Committee's annual report considered by this Committee on 25 June 2019. It notes the additional challenge of corporate risks that the Committee now carries out on a regular basis, the senior officer attendance at its meetings to update Members on progress of agreed actions from key reports. It also notes that the Committee now receives a Counter Fraud Annual Report.

5.3 Across five areas the score was evaluated at 4 out of a possible 5, demonstrating: "clear evidence from some sources that the Committee is actively and effectively supporting improvement across some aspects of this area". For the remaining four areas evaluated, the assessed score was 5, demonstrating: "clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable".

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 2015 state that the Council must ensure that it has a sound system of internal control that:

- (i) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (ii) ensures that the financial and operational management of the authority is effective; and
- (iii) includes effective arrangements for the management of risk. The Audit & Governance 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 implications arising from this report.

11. CONSULTATIONS

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Date: 3 January 2020

Background Papers: Audit & Governance Committee – Effectiveness
Assessment, reported to Audit Committee on 15
January 2019
Audit Committee – Annual Report, reported to Audit
& Governance Committee on 25 June 2019