

COMMITTEE	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
DATE	<b>19 JULY 2018</b>
TITLE	<b>SELF-ASSESSMENT OF THE EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE</b>
PURPOSE OF REPORT	<b>TO PRESENT A SUGGESTED APPROACH FOR ASSESSING THE EFFECTIVENESS OF THE COMMITTEE, AND CONSIDER THE APPROPRIATE IMPLEMENTATION</b>
AUTHOR	<b>DEWI MORGAN, SENIOR MANAGER REVENUE AND RISK</b>
ACTION	<b>TO CONSIDER THE CONTENTS, OFFER COMMENT THEREON, AND RESOLVE WHETHER TO UNDERTAKE A SELF-ASSESSMENT</b>

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## **1. INTRODUCTION**

- 1.1 The Audit and Governance Committee has a key role within the authority's governance arrangements – this is the Committee that has been designated as "those responsible for governance". This means that it has the task of ensuring that the Council's governance arrangements are robust.
- 1.2 As a result of this responsibility, it is expected that the Committee undertakes a periodic self-assessment of its effectiveness.
- 1.3 The last such self-assessment was conducted in May 2016. Since the current Council has now been in place for a year, and CIPFA has published new guidance for audit committees in May 2018, it is recommended that the Committee considers whether a new self-assessment exercise is now timely.

## **2. CIPFA GUIDANCE**

- 2.1 In the Welsh Government's Statutory Guidance from the Local Government Measure 2011 (June 2012), it is noted that the Government has previously endorsed CIPFA's publication "*Audit Committees: Practical Guidance for Local Authorities*" and continues to do so, and local authorities are advised to view this document as being complimentary to the statutory guidance.
- 2.2 CIPFA'S publication was originally published in 2005, and the statutory guidance themselves note that it had become somewhat dated by 2012. A new version of "*Audit Committees: Practical Guidance for Local Authorities*" was published in 2013, and a further version has been published in 2018.
- 2.3 Training for members of the Audit and Governance Committee, "*Responsibilities of the Audit Committee*", was held on 14 June 2017. In that event, a copy CIPFA's *Position Statement: Audit Committees in Local Authorities and Police* was shared with members. The new guidance contains a new Position Statement; a copy is found in Appendix 1.

## **3. UNDERTAKING A SELF-ASSESSMENT**

- 3.1 CIPFA's guidance includes tools to assist members of audit committees to undertake a self-assessment. Firstly, a **Self-assessment of Good Practice** provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and in the guidance. Secondly, there is a table for **Evaluating the Effectiveness of the Audit Committee**, to assess where the Committee is operating in the most effective manner, and where there is scope to do more. These have been included in Appendices 2 and 3.
- 3.2 As can be seen, these documents are neither lengthy nor complex, but if they are to be utilised, time will need to be dedicated to undertake the work – a formal committee meeting is not a suitable forum.

- 3.3 The Audit and Governance Committee is therefore asked to consider holding a workshop of its members, with facilitators, during September or October 2018, in order to conduct its own assessment of its effectiveness.
- 3.4 The outcome of the assessment will be evidence for the Council's risk register (risk **L18**, *Unsuitable internal control arrangements, which means either that we are not guarding against risks, or wasting resources on over-control*), and consequently for the Annual Governance Statement.

#### **4. RECOMMENDATION**

- 4.1 The Committee is requested to consider whether to organise a workshop during September or October 2018 in order to conduct a self-assessment of its effectiveness and, if agreed, to decide on a location.**

## CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 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.
- 2 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. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. 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
  - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
  - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
  - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
  - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
  - In relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework.
  - Consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.
  - Monitor the effectiveness of the control environment, 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.
  - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.

- Support effective 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.
- 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.

5 An audit committee can also support its authority by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards and ethics committees to support ethical values
- Reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
- Providing oversight of other public reports, such as the annual report.

6 Good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
- 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. There are many personal qualities needed to be an effective chair, but key to these are:
  - promoting apolitical open discussion
  - managing meetings to cover all business and encouraging a candid approach from all participants
  - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

7 To discharge its responsibilities effectively the committee should:

- 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), 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.
- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

## Self-assessment of Good Practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police and this publication. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

	<b>Good practice questions</b>	<b>Yes</b>	<b>Partly</b>	<b>No</b>
<b>Audit committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (Applicable to local government only.)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	<ul style="list-style-type: none"> <li>• good governance</li> </ul>			
	<ul style="list-style-type: none"> <li>• assurance framework, including partnerships and collaboration arrangements</li> </ul>			
	<ul style="list-style-type: none"> <li>• internal audit</li> </ul>			
	<ul style="list-style-type: none"> <li>• external audit</li> </ul>			
	<ul style="list-style-type: none"> <li>• financial reporting</li> </ul>			
	<ul style="list-style-type: none"> <li>• risk management</li> </ul>			
	<ul style="list-style-type: none"> <li>• value for money or best value</li> </ul>			
	<ul style="list-style-type: none"> <li>• counter-fraud and corruption</li> </ul>			
	<ul style="list-style-type: none"> <li>• supporting the ethical framework</li> </ul>			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

<b>Membership and support</b>				
12	Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> <li>• separation from the executive</li> <li>• an appropriate mix of knowledge and skills among the membership</li> <li>• a size of committee that is not unwieldy</li> <li>• consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).</li> </ul>			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
18	Is adequate secretariat and administrative support to the committee provided?			
<b>Effectiveness of the committee</b>				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

## **Evaluating the Effectiveness of the Audit Committee**

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### **Assessment key**

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- 5 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
- 4 Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
- 3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
- 2 There is some evidence that the committee has supported improvements, but the impact of this support is limited.
- 1 No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making.	<ul style="list-style-type: none"> <li>• Supporting the development of a local code of governance</li> <li>• Providing robust review of the AGS and the assurances underpinning it.</li> <li>• Working with key members to improve their understanding of the AGS and their contribution to it.</li> <li>• Supporting reviews/audits of governance arrangements.</li> <li>• Participating in self-assessments of governance arrangements.</li> <li>• Working with partner audit committees to review governance arrangements in partnerships.</li> </ul>		
Contributing to the development of an effective control environment.	<ul style="list-style-type: none"> <li>• Actively monitoring the implementation of recommendations from auditors.</li> <li>• Encouraging ownership of the internal control framework by appropriate managers.</li> <li>• Raising significant concerns over controls with appropriate senior managers.</li> </ul>		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<ul style="list-style-type: none"> <li>• Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking.</li> <li>• Monitoring improvements.</li> <li>• Holding risk owners to account for major/strategic risks</li> </ul>		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<ul style="list-style-type: none"> <li>• Specifying its assurance needs, identifying gaps or overlaps in assurance.</li> <li>• Seeking to streamline assurance gathering and reporting.</li> <li>• Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.</li> </ul>		



Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> <li>• Reviewing the audit charter and functional reporting arrangements.</li> <li>• Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements</li> <li>• Actively supporting the quality assurance and improvement programme of internal audit</li> </ul>		
Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	<ul style="list-style-type: none"> <li>• Reviewing how the governance arrangements support the achievement of sustainable outcomes</li> <li>• Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</li> <li>• Reviewing the effectiveness of performance management arrangements.</li> </ul>		
Supporting the development of robust arrangements for ensuring value for money.	<ul style="list-style-type: none"> <li>• Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee.</li> <li>• Considering how performance in value for money is evaluated as part of the AGS.</li> </ul>		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<ul style="list-style-type: none"> <li>• Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)</li> <li>• Reviewing fraud risks and the effectiveness of the organisation’s strategy to address those risks.</li> <li>• Assessing the effectiveness of ethical governance arrangements for both staff and governors.</li> </ul>		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
<p>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.</p>	<ul style="list-style-type: none"> <li>• Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain language.</li> <li>• Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</li> <li>• Publishing an annual report from the committee</li> </ul>		