

30 January 2019**Agenda Item: 7****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT****EFFECTIVENESS OF THE AUDIT COMMITTEE ROLE****Purpose of the Report**

1. To feed back to Members the outcome of the discussion at the meeting in November 2018 around the effectiveness of the Committee's performance of the audit committee role in the Council.

Information

2. CIPFA's publication, 'audit committees – Practical Guidance for Local Authorities and Police' was considered by the Governance & Ethics Committee in July 2018. The updated guidance represents CIPFA's position statement on audit committees, and it sets out best practice advice around the following:
 - The purpose of an audit committee
 - The core functions of an audit committee
 - The arrangements for an audit committee's independence and accountability
 - Membership of an audit committee to ensure its effectiveness
3. Among the recommendations agreed in July 2018 was for each member of the Committee to complete the self-assessment template, along with consideration of the knowledge and skills framework for audit committee members. Both self-assessment templates are contained in the CIPFA guidance.
4. Feedback was obtained by means of the following:
 - a) A joint, written response from three members of the Committee
 - b) Written responses from two officers who have been regular attendees at Committee meetings
 - c) A facilitated discussion at the Committee's meeting in November 2018.

5. A summary of the feedback for each of the nine areas of the self-assessment is set out below.

Aspect of audit committee input	Summary of feedback
Promoting the principles of good governance and their application to decision-making	<p>The Committee is actively contributing in this area.</p> <ul style="list-style-type: none"> • approved a Local Code of Corporate Governance and overseen the arrangements for assessing compliance against it as a basis for compiling the Annual Governance Statement • driving the pilot of an assurance mapping process in the Council • follow-up reports commissioned from officers to delve more deeply into areas flagged up by the internal audit service <p>An area for development is more work on reviewing governance arrangements in partnerships.</p> <p>Some members expressed the view that, although familiar with the principles of good governance, they felt much less skilled and confident in the audit aspect of this committee, particularly when working with partners such as the PCC. It was considered that this is the result of taking away the separate Audit Committee with the required expertise.</p>
Contributing to the development of an effective control environment	<p>The Committee has good arrangements in place to deliver this:</p> <ul style="list-style-type: none"> • strong process in place for driving through the implementation of agreed Internal Audit recommendations • holding senior officers to account to ensure they own the implementation of agreed actions, through requiring their attendance at Committee to explain progress • timetable for management to respond to internal audit report recommendations • Head of IA has unfettered access to key Members and Statutory Officers to raise concerns/issues <p>Some Members expressed the view that the lack of a separate Audit Committee also impinged on effectiveness in this area, and that a Chair and Vice-Chair of Audit would be more effective with these responsibilities.</p>
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<p>The Committee has commenced its input to this area through receipt of a first update on corporate risk management in September 2018. This identified that more work is required to help Members understand the process and identification of key Council risks. Understanding of this area is growing but additional training would be welcomed.</p>
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<p>The Committee's involvement is progressing through the pilot approach to assurance mapping. This is building on established arrangements for reviewing the effectiveness of internal and external audit provision, two of the Committee's primary assurance providers.</p> <p>The current arrangements that include the review of auditors were felt to be working.</p>
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<p>The Committee has been very active in this area:</p> <ul style="list-style-type: none"> • reviewed and agreed refreshes of the Internal Audit Charter • regularly assessed the effectiveness of internal audit through scrutiny of the service's planning and progress reports and through review of the external quality assessment of the service <p>Through this input, the Committee supports the independence of the internal audit service and encourages its proposals for developments and improvements.</p> <p>Some members considered they are gaining a better understanding of this but need to be more pro-active in suggesting areas for audit.</p>
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk,	<p>This is an area in which the Committee has identified scope for clearer links with the work of the Improvement and Change Sub-Committee and the assurance the Sub-Committee can provide around the achievement of the Council's goals and objectives.</p>

Aspect of audit committee input	Summary of feedback
control and assurance arrangements	The Committee recommended the commissioning of a Local Government Association peer review at its meeting in November 2018. Some Members expressed the view that the lack of a separate Audit Committee also impinged on effectiveness in this area.
Supporting the development of robust arrangements for ensuring value for money	This is an area under development. Value for money is an element of the pilot assurance mapping process, which should provide additional assurance to the annual VFM assessment delivered by external audit. Without expertise in the Audit process, some Members considered this is difficult to do in a robust fashion.
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	The Committee has been very active in this area, notably through reviewing arrangements for countering fraud and corruption risks through scrutiny of the Council's Annual Fraud Report. Follow-up reports from selected areas of service particularly vulnerable to fraud have also been commissioned. The Committee has been active in considering the ethical framework in the Council, notably through its review of the Members' Code of Conduct.
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	The Committee reviews the annual statement of accounts and it brings a transparent approach through open consideration at each meeting of Ombudsman reports. The Committee has committed to developments in this area through the preparation of an annual report on its work, to be instituted from 2018/19. This might help to address one concern raised by Members that reporting should be clearer and easier to access from one source.

6. In relation to the knowledge and skills framework, Members expressed a desire for further development to aid their understanding of the context within which its assurance providers operate. This would also assist in understanding some of the terminology used by those assurance services. Particular areas highlighted were the following:
 - The operational context for the internal audit service – it was suggested that this could be achieved through a case study approach, to guide Members through the key elements of the internal audit process.
 - Clearer understanding of risk management terminology
7. Also identified above is the scope for closer links between the Governance & Ethics Committee and the Improvement & Change Sub-Committee. To this end, Members' attention is drawn to a further piece of guidance for audit committees, issued by the National Audit Office (NAO), concerning transformation. This guidance is set out in the same style as the NAO's guidance on cyber security, providing for a series of areas in which audit committees may wish to seek assurance. This guidance might be used as the basis for a paper to the Improvement & Change Sub-Committee, which in turn might then provide assurance to this committee.
8. At its meeting on 25 July 2018, Committee agreed to the development and implementation of an annual public report on the effectiveness of the Governance & Ethics Committee's discharge of its audit committee role. A draft report for 2018/19 will be scheduled for consideration by the Committee at its meeting on 1 May 2019, with a view to approval for subsequent reporting to Full Council.

Other Options Considered

9. No other options were considered for this report.

Reason/s for Recommendation/s

10. To provide Members with a summary of the feedback provided in relation to the best practice guidance, so that priorities for development may be identified.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) The Committee considers the summary feedback presented in the report and agrees that future developmental items are brought to the Committee to cover risk management and an internal audit case study.
- 2) The Committee agrees that the Improvement & Change Sub-Committee should be requested to consider a self-assessment against the NAO's audit committee guidance for transformation in councils.
- 3) The Committee agrees to receive a draft Annual Report on the work of the Governance & Ethics Committee in 2018/19 at its meeting scheduled for 1 May 2019.
- 4) The Committee considers whether there are any additional areas in which it would like to see actions taken or developmental items brought to future meetings.

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Constitutional Comments (KK 14/01/2019)

12. The proposals in this report are within the remit of the Governance & Ethics Committee.

Financial Comments (RWK 14/01/2019)

13. There are no specific financial implications arising directly from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All