

AUDIT COMMITTEE

28 November 2018

Audit Committee Effectiveness

Report of Internal Audit and Assurance Manager

PURPOSE OF REPORT

To advise Members of the requirement to complete a regular assessment of the Audit Committees performance and effectiveness and agree an implementation date of the first assessment.

This report is public

RECOMMENDATIONS

- (1) That the report informing the Audit Committee of the requirement to complete a regular assessment of their performance and effectiveness be noted.
- (2) That the Audit Committee agree to use the 'self-assessment of good practice' (Appendix A) contained within the CIPFA publication 'Audit Committees; Practical Guidance for Local Authorities and Police 2018' following the May 2019 elections to assist in demonstrating their effectiveness and performance.
- (3) That the Audit Committee agree to liaise individually with the Internal Audit and Assurance Manager following the May 2019 election to work through CIPFA's 'knowledge and skills framework' to ensure all core requirements are met and any gaps are identified and addressed.
- (4) That the Internal Audit and Assurance Manager develops a record to evidence how the Audit Committee has and will continue to support the organisation and add value in the future.

1.0 Introduction

- 1.1 Audit Committees are a key component of an authority's governance framework. Their function is to provide a high-level focus on assurance and the organisation's arrangements for governance, managing risk, maintaining an effective control environment, reporting on financial and non-financial performance and supporting standards and ethics.
- 1.2 It is sometimes difficult to measure effectiveness, however CIPFA guidance states that Audit Committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business.
- 1.3 A good standard of performance against recommended practice, clear visible evidence of how the committee has added value and assisted the organisation, together with a knowledgeable and experienced membership, are essential for delivering a high performing, effective Audit Committee.
- 1.4 CIPFA's 'Audit Committees Practical Guidance for Local Authorities and Police 2018' offers Local Authorities guidance on the function and operation of an Audit Committee. The guidance incorporates a 'Position Statement' which sets out CIPFA's view on the

role and functions of an Audit Committee (which are reflected in the committee's terms of reference) and also offers guidance on the 'core' areas of knowledge and skills required of its Members and any additional 'specialist' knowledge and skills that adds further value to the committee.

1.5 The guidance also features a 'self-assessment of good practice'. Local Authorities are encouraged not to regard the completion of this as a tick box exercise, as its completion does not mean necessarily that committee is effective. However to use it as a high level review to demonstrate the committee is soundly based and has a knowledgeable membership, therefore meeting the key principles set out in CIPFA's Position Statement.

1.6 In addition to the completion of the self-assessment Local Authorities should also be looking for clear evidence that the committee is actively supporting improvements across the organisation. This can include reviewing risk management, reviewing major projects to ensure governance arrangements are in place and ensuring value for money is included in the assurances provided by the audit team (if applicable). Consideration of these areas alongside the completion of the self-assessment (attached) as well as regular attendance and an active participation at meetings is an effective way to demonstrate the committee's performance and efficiency.

2.0 Public Sector Internal Audit Standards (PSIAS) – peer review

2.1 The PSIAS peer review completed by Allerdale and Burnley Borough Council in February 2018 identified that a review of effectiveness has never been completed at Lancaster City Council and that one should be completed at the earliest opportunity in line with CIPFA guidance but also to provide the necessary assurances to Full Council that any work completed by the committee is effective.

3.0 Proposal Details

3.1 The self-assessment of good practice is attached at Appendix A for information. It is proposed that this be completed by the Internal Audit and Assurance Manager (IAAM) and the Section 151 Officer and then scrutinised by the Audit Committee after the May 2019 elections once the appointment to committees has been completed.

3.2 The committee members will liaise with the IAAM to work through CIPFA's 'knowledge and skills framework' to ensure any gaps in the required 'core' skills and knowledge are addressed. In addition, any 'specialist' knowledge that adds additional value to the Audit Committee will also be documented.

3.3 The IAAM will pull together and maintain a 'live' document which will evidence how the committee has to date supported the improvements across the organisation, but more importantly highlight any gaps or areas for improvements in the future.

4.0 Details of Consultation

4.1 No specific consultation has been undertaken in compiling this report.

5.0 Options and Options Analysis (including risk assessment)

5.1 There are no other options available. The need to carry out a regular review of the Audit Committee's performance and effectiveness is required in accordance with CIPFA guidance and to provide assurance to Full Council that any work completed by the committee is effective.

6.0 Conclusion

6.1 Completion of the tasks listed in the proposal details above will ensure the Audit Committee can demonstrate its performance and effectiveness in fulfilling its delegated responsibilities in providing those charged with governance (Full Council) independent assurance on the adequacy of the organisation's arrangements for managing risk, internal control and financial reporting.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

CIPFA's– Audit Committees Practical
Guidance for Local Authorities and Police,
Public Sector Internal Audit Standards

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CIPFA self-assessment of Good Practice

Good practice questions		Yes	Partly	No	Comments
Audit Committee purpose and governance					
1	Does the authority have a dedicated Audit Committee?				
2	Does the Audit Committee report directly to Full Council?				
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 Audit Committee to account for its performance operating satisfactorily?				
Functions of the Committee					
7	<p>Do the Audit Committee's terms of reference explicitly address all the core areas identified in CIPFA'S Position Statement?</p> <ul style="list-style-type: none"> ▪ good governance ▪ assurance framework ▪ internal audit ▪ external audit ▪ financial reporting ▪ risk management ▪ value for money or best value ▪ counter-fraud and corruption ▪ supporting the ethical framework 				
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 Audit Committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?				

Good practice questions		Yes	Partly	No	Comments
Membership and support					
12	Has an effective Audit Committee structure and composition of the Committee been selected? This should include: <ul style="list-style-type: none"> ▪ separation from the executive ▪ an appropriate mix of knowledge and skills among the membership ▪ a size of committee that is not unwieldy ▪ consideration has been given to the inclusion of at least one independent member (where is it not already a mandatory requirement). 				
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the Full Council.				
14	Does the Chairman of the Audit Committee have appropriate knowledge and skills?				
15	Are arrangements in place to support the Audit Committee with briefings and training?				
16	Has the membership of the Audit Committee been assessed against the <u>core</u> knowledge and skills framework and found to be satisfactory?				
17	Does the Audit 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 Audit Committee provided?				
Effectiveness of the Committee					
19	Has the Audit 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 members?				
21	Does the Audit 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 Audit Committee make recommendations for the improvement of governance, risk and control and are these acted on?				
23	Has the Audit Committee evaluated whether and how it is adding value to the organisation?				

Good practice questions		Yes	Partly	No	Comments
24	Does the Audit Committee have an action plan to improve any areas of weakness?				
25	Does the Audit Committee publish an annual report to account for its performance and explain its work?				