

AUDIT COMMITTEE

25 November 2020

Annual Review of Audit Committee Performance

Report of Internal Audit and Assurance Manager

PURPOSE OF REPORT

Annual Review of Audit Committee Performance

This report is public

RECOMMENDATIONS

- (1) That the Audit Committee considers CIPFA's Self-Assessment of Good Practice at Appendix 1 and agrees the areas identified where further improvement is considered beneficial.

1.0 Background

- 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 An 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 Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential for delivering effectiveness.
- 1.4 Authorities are encouraged not to regard meeting the recommended practice as a tick box activity and are reminded that achieving recommended practice does not mean necessarily that the Audit Committee is effective. To help give a more rounded opinion of the Committee's effectiveness, further guidance is provided in CIPFA's Audit Committee publication in respect of a knowledge and skills framework.
- 1.5 This is the first review of the Audit Committee's performance using CIPFA's Self-Assessment of Good Practice. Future annual reviews have now been scheduled in the Audit Committee's work programme.

2.0 Purpose of Report

- 2.1 To consider CIPFA's Self-Assessment of Good Practice contained within CIPFA publication 'Audit Committees - Practice Guidance for Local Authorities and Police 2018' and identify the actions necessary to ensure that the Audit Committee meets best practice guidance and provides value to the authority.

3.0 Details of Consultation

- 3.1 The self-assessment at Appendix 1 has been completed by the Internal Audit and Assurance Manager and ratified by the Head of Finance (Section 151). Members will be asked to contribute to a discussion at the remote meeting with a view to ensuring the Audit Committee are meeting the requirements of CIPFA's 'Self-Assessment of Good Practice' and agree the areas that have been identified as requiring attention (highlighted in bold).

4.0 Options and Options Analysis (including risk assessment)

- 4.1 There are no alternative options identified.

5.0 Conclusion

- 5.1 It is timely and appropriate to conduct a review of the Audit Committee's performance and approve an improvement plan in accordance with CIPFA's recommended guidance. The outcome of this review can be used as a source of evidence in the Council's Annual Governance Statement to demonstrate that an effective Audit Committee is in place and working as intended.

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

Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition

Contact Officer: Joanne Billington

Telephone: 01524 582028

E-mail: jbillington@lancaster.gov.uk

Ref:

CIPFA Self-Assessment of Good Practice – November 2020

Good practice questions	Yes	Partly	No	Comments
Audit Committee purpose and governance				
1 Does the authority have a dedicated Audit Committee?	✓			The Audit Committee has been in place since pre 2001.
2 Does the Audit Committee report directly to Full Council?	✓			<p>A periodic report is submitted to Full Council with the last report being considered 11 April 2018.</p> <p>Action A periodic report for 2019/20 needs to be completed and submitted to Full Council for approval.</p>
3 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			The terms of reference, last approved in 19 February 2020 accurately reflects CIPFA's guidance 'Audit Committee's – Practical Guidance for Local Authorities and Police 2018.
4 Is the role and purpose of the Audit Committee understood and accepted across the authority?		✓		Most of the current membership have all received training on the role and purpose of the Audit Committee. However, following the Annual Meeting in May 2020 several new members have joined the Audit Committee and owing to the on-going pandemic, training has not been given to these new members.

				<p><u>Action</u></p> <p>New Audit Committee members will receive training on the execution of their terms of reference. This may be virtual training, given the current working arrangements.</p>
5	Does the Audit Committee provide support to the authority in meeting the requirements of good governance?	✓		The Audit Committee provide assurance on the adequacy of internal control, risk management, the integrity of financial reporting, and the annual governance processes.
6	Are the arrangements to hold the Audit Committee to account for its performance operating satisfactorily?	✓		The first annual review of effectiveness was completed in November 2020 by the Internal Audit and Assurance Manager and ratified by the Head of Finance (Section 151 Officer). An improvement plan is identified of any issues that need attention. Future annual reviews of effectiveness have been scheduled in the Audit Committee work programme for November.
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 	✓		The Audit Committee's terms of reference are in accordance with CIPFA's 'Audit Committees - Practical Guidance for Local Authorities and Police 2018'.

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?	✓			Although the self-assessment has been completed by the Internal Audit and Assurance Manager and ratified by the Head of Finance (Section 151 Officer), the annual review of effectiveness gives the Audit Committee the opportunity to assess if it is fulfilling the terms of reference.
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?	✓			The Audit Committee already participate by considering governance and risk. The Committee also consider compliance to the Regulations of Investigatory Powers Act (RIPA). The Code of Practice on Treasury Management requires a body to be nominated and responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Council has nominated the Budget and Performance Panel to execute these functions.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	N/A	N/A	N/A	There have been no instances where coverage of core areas has been found to be limited.
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?	✓			The Audit Committee does not take on any decision making powers that are not documented within its terms of reference.
Membership and support					
12	Has an effective Audit Committee structure and composition of the Committee been selected?				Whilst individual Members of the Audit Committee may also serve on

	<p>This should include:</p> <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). 	✓		✓	<p>overview and scrutiny the Audit Committee's Terms of Reference stipulates that the Chair and Vice Chair must not be a member of the Cabinet or any overview and scrutiny committees.</p>
13	<p>Have independent members appointed to the committee been recruited in an open and transparent way and approved by the Full Council.</p>			✓	<p>The Audit Committee membership does not contain any independent members.</p>
14	<p>Does the Chairman of the Audit Committee have appropriate knowledge and skills?</p>	✓			<p>The current Audit Committee Chairman was first appointed in May 2019. He has extensive risk management skills, is a maths teacher and is also the Assistant Head Teacher at Settle College.</p>
15	<p>Are arrangements in place to support the Audit Committee with briefings and training?</p>	✓			<p>Training is provided to the Audit Committee in accordance with their scheduled Audit Committee Work Programme. In addition, the Audit Committee members will receive briefings as part of the Audit Committee agenda as and when required.</p>
16	<p>Has the membership of the Audit Committee been assessed against the <u>core</u> knowledge and skills framework and found to be satisfactory?</p>	✓			<p>The induction training in June 2019 covered the core areas of the knowledge and skills framework.</p> <p>On-going regular attendance will ensure members complete the work programme thereby continually enhancing their knowledge and skills.</p>

					It should be noted that during 2020, all but one meeting (19 February) has been held remotely via TEAMS and it is intended that until further notice, all future committee meetings will be held in this way.
17	Does the Audit Committee have good working relations with key people and organisations, including external audit, internal audit and the Chief Financial Officer?	✓			Both the Head of Finance (Section 151 Officer) and the Internal Audit and Assurance Manager attend every Audit Committee meeting. In addition, a representative from the Council's External Auditors are frequently in attendance.
18	Is adequate secretariat and administrative support to the Audit Committee provided?	✓			Each meeting (including virtual meetings) are attended by an officer from the Council's Democratic Services Team. The meetings are minuted and published on the Council's Internet.
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?	✓			Both the Head of Internal Audit and Assurance and the External Auditors have the opportunity to provide feedback to the Audit Committee at their annual private discussions.
20	Are meetings effective with a good level of discussion and engagement from all members?	✓			Members routinely ask questions and will ask for further explanations and updates following audit reports where a minimal assurance opinion has been given.
21	Does the Audit Committee engage with a wide range of leaders and managers, including discussion of		✓		Following the receipt of a final audit report, the Audit Committee can call

	audit findings, risks and action plans with the responsible officers?				in Directors / Managers to challenge them on audit findings, outstanding actions or any associated risks.
22	Does the Audit Committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓			The Audit Committee regularly request more updates on the progress of embedding risk management across the organisation and the progress in implementing the actions raised following the production of the Annual Governance Statement.
23	Has the Audit Committee evaluated whether and how it is adding value to the organisation?	✓			During their induction in June 2019 the Audit Committee Members were given examples of where and how the AC could add value to the organisation. The Audit Committee will be invited to discuss this further as part of their annual review of effectiveness.
24	Does the Audit Committee have an action plan to improve any areas of weakness?	✓			Actions contained within this checklist are highlighted in bold and will be implemented prior to the next annual review.
25	Does the Audit Committee publish an annual report to account for its performance and explain its work?	✓			A periodic report is submitted to Full Council with the last report being considered on the 11 April 2019. The report explains the work of the Audit Committee and more specifically details the reports that been submitted during the year. See action required at Q2.