



Committee and Date

Audit Committee

30 November 2017

13:30 pm

Item

Public

AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

Responsible Officer James Walton

e-mail: James.walton@shropshire.go.uk

Tel: 01743 258915

1. Summary

Members are asked to review and comment on the self-assessment of good practice questionnaire attached to this report. The questionnaire allows members to assess the effectiveness of the Audit Committee and identify whether there are any further improvements that could be made which would improve its overall effectiveness. The Self-Assessment has identified high levels of compliance with accepted good practice. A number of areas of non-compliance with good practice have, nonetheless, been identified and this needs to be considered and appropriate action taken.

2. Recommendations

Members are asked to:

- A. Consider the self-assessment of good practice attached at **Appendix A** and identify any errors or amendments required.
- B. Identify the further work, actions or training required as a result of the completion of the self-assessment of good practice and the analysis of training requirements attached at **Appendix B**
- C. Provide the necessary input to enable an action plan to be created to improve areas of weakness.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Audit Committee has a key function in ensuring effective corporate governance, risk and control arrangements are in place in the Council. The effectiveness of the committee should be judged by the contribution it makes to, and beneficial impact it has on, the Council's business. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements which empower an effective Audit Committee. By reviewing effectiveness annually using a good practice self-assessment, it can be established that the Committee is demonstrating a high degree of performance, is soundly based, and has a knowledgeable membership unimpaired in any way. Completion of the self-assessment can also be used to support the planning of the Audit Committee work programme and its training plans, and inform the Committee's annual report to Council.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

There are no financial implications in terms of reviewing the assessment but any resulting activities may require funding if they are not already allowed for in the base budget.

5. Background

- 5.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, has produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2013 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 5.2 In the guidance, CIPFA provide a suggested self-assessment against recommended practice. Authorities are encouraged to use the checklist to determine if they are meeting recommended practice and as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.
- 5.3 The Section 151 Officer and the Head of Audit have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. Membership of the Audit Committee has changed since the last refresh and the assessment has been considered at a training session in October 2017. Annual refreshers are undertaken with Member involvement and reported to this Committee. In preparation for 2017/8, the self-assessment has been updated and circulated to members for consideration prior to this meeting, attached as **Appendix A**.
- 5.4 Following changes to Audit Committee membership in 2017, Members were asked to complete the following activities to gain a better picture of the Committee's understanding of its effectiveness as part of the review process:

- A self-assessment of individual training requirements.
- A self-assessment of the effectiveness of the audit committee.

5.5 Learning from these self-assessments is important and the data extracted will be used to inform training sessions and identify areas for continued improvement. The information from self-assessments are balanced alongside ongoing requests from committee members in response to current topics.

Training sessions provided in June and October 2017 have included:

- Purpose of the Audit Committee
- Core functions
- Wider committee role
- Membership and effectiveness
- Annual assessment, evaluating effectiveness and identifying any improvements
- Members self-assessment of skills and training needs
- Contract management and Porge
- Risk management and registers.

5.6 The next training session is the 12 January 2018 and Members have requested that focus is on: Risk management, Improvement, The value of good governance and Strategic thinking, including the understanding of materiality

5.7 **Appendix B** provides a summary from the two self-assessments, detailed in 5.4 above, showing the areas members have identified for future focus and refresh sessions and also where updated training has been provided.

5.8 Following the current review of the Audit Committee self-assessment of good practice, a number of areas of partial compliance were identified and two of none compliance. These are summarised below with the proposed actions to improve for members to consider as components in an action plan looking forward.

SAR ¹	Partial compliance	Proposed action
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Members to consider areas identified for improvement in the Annual Governance Statement against their work and training plans, to ensure coverage of all areas the committee requires assurances from.
12	Has an effective audit committee structure and composition of the committee been selected? <ul style="list-style-type: none"> • An appropriate mix of knowledge and skills among the membership 	Consider feedback from skills self-assessment for members, results in Appendix B .

¹ SAR = Self-assessment reference

SAR ¹	Partial compliance	Proposed action
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Committee to consider the benefit of more formal feedback or support from an external body, e.g. CIPFA to help assess its performance.
19	Has the committee evaluated whether and how it is adding value to the organisation?	The proposed action at 5 above, will continue to ensure this in addition to completing the self-assessment: Evaluating the effectiveness of the audit committee.
	Non compliance	
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	By completing the action in 12 above, alongside Recommendation C, compliance can be achieved.
20	Does the committee have an action plan to improve any areas of weakness?	See Recommendation C. The actions proposed throughout this document will help to identify the Audit Committee's improvement plan going forward.

5.9 In addition there are areas where the assessment is positive and proposed actions identified will help to reinforce and build upon the current position

	Full compliance	Proposed action
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	The proposed action at 5, will continue to ensure this.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	The proposed action at 5, will continue to ensure this.
13	Does the chair of the committee have appropriate knowledge and skills?	The new Chair may wish to consider shadowing an established Audit Committee Chair for another organisation to build on their understanding of the role and further refine their approach. (Repeated from last year and left in for the new Chair to decide).
14	Are arrangements in place to support the committee with briefings and training?	The proposed action at 12 above, will continue to ensure this.

Do members support or wish to adjust the findings of the self-assessment?

5.10 Compliance against the self-assessment can be demonstrated. Members are asked to endorse the self-assessment of good practice and agree to proposed areas for improvement and identify any additional areas or training needs.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA: Audit Committees in Local Authorities and Police, 2013 edition

Cabinet Member (Portfolio Holder)

Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

Local Member n/a

Appendices

A Self-assessment of good practice November 2017

B Analysis of training requirements and the effectiveness of the Audit Committee based on the 2017 self-assessments

C Self-assessment of good practice November 2017 showing evidence

Appendix A: Self-assessment of Good Practice November 2017

Good practice questions		Yes	Partly	No
Audit Committee purpose and governance				
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?	✓		
Functions of the committee				
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"> • Good governance 	✓		
	<ul style="list-style-type: none"> • Assurance framework 	✓		
	<ul style="list-style-type: none"> • Internal audit 	✓		

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> External audit 	✓		
	<ul style="list-style-type: none"> Financial reporting 	✓		
	<ul style="list-style-type: none"> Risk management 	✓		
	<ul style="list-style-type: none"> Value for money or best value 	✓		
	<ul style="list-style-type: none"> Counter-fraud and corruption 	✓		
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?	✓		
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 	✓		

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership 		✓	
	<ul style="list-style-type: none"> A size of committee that is not unwieldy 	✓		
	<ul style="list-style-type: none"> Where independent members are used, that they have been appointed using an appropriate process. 	✓		
13	Does the chair of the committee have appropriate knowledge and skills?	✓		
14	Are arrangements in place to support the committee with briefings and training?	✓		
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓		
17	Is adequate secretariat and administrative support to the committee provided?	✓		
Effectiveness of the committee				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓	
19	Has the committee evaluated whether and how it is adding value to the organisation?		✓	
20	Does the committee have an action plan to improve any areas of weakness?			✓

Appendix B: Analysis of training requirements based on 2017 self-assessments.

Training requirements

Level of confidence reported in skills set and knowledge across the majority of committee members

H	High
M	Medium
L	Low

Rank	Skills: Core	Evidence of training since April 2017
H ²	Organisational knowledge	October 2017 ³
H	Audit Committee role and functions	June 2017
H	Governance	June 2017
H	Internal Audit	June 2017
H	Financial management and accounting	June 2017
H	External Audit	June 2017
H	Risk Management	June and October 2017
H	Counter-fraud	
H	Values of good governance	June 2017
M	Treasury management	June 2017
H	Strategic thinking and understanding of materiality	
H	Questioning and constructive challenge	
H	Focus on improvement	
H	Able to balance practicality against theory	
H	Clear communication skills and focus on the needs of users	

² Based on 4/9 completed

³ Contract management

Audit Committee, 30 November 2017: Audit Committee Self-Assessment of good practice

Skills: Specialist		
L	Accountancy	
L	Internal Audit	June 2017
L	Risk Management	June and October 2017
L	Governance and Legal	October 2017 ⁴
M	Service knowledge relevant to the functions of the organisation	
M	Programme and project management	
L	IT system and IT governance	
Analysis of the effectiveness of Audit Committee based on 2017 self-assessments		
M ⁵	Promoting the principles of good governance and their application to decision making.	
M	Contributing to the development of an effective control environment.	
M	Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	
M	Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	
M	Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	
M	Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	
M	Supporting the development of robust arrangements for ensuring value for money.	
M	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.	
M	Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	

⁴ Contract management

⁵ Based on 3/9 completion

Appendix C: Self-assessment of Good Practice showing evidence

	Good practice questions	Yes/ No/ Partly	Evidence
	Audit Committee purpose and governance		
1	Does the authority have a dedicated audit committee?	Yes	Constitution/ actual meetings, details on internet.
2	Does the audit committee report directly to full council? (Applicable to local government only.)	Yes	ToR ⁶ paragraph (para) 39/40, reviewed, revised and reapproved at November Audit Committees.
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Yes	ToR from para 9 reviewed, revised and reapproved at November Audit Committees.
4	Is this role and purpose of the audit committee understood and accepted across the authority?	Yes	Officers and members are aware of this – there can be some confusion over the scrutiny/ audit committee role at times, this is worked on by key members and officers at every opportunity. Officers are invited to Audit Committee to discuss major risks and control issues, examples can be provided from various agendas. Discussions take place between the Chairman, CEO, senior officers and Portfolio Holders as required.

⁶ Terms of reference

	Good practice questions	Yes/ No/ Partly	Evidence
			Member training is sometimes extended to a wider member audience The annual report from Committee to Council informs all members of the Committee's activities.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Partly	ToR para 9-17. ToR Para 41, j. The Committee's work plan identifies areas of governance that it provides support on, this can be seen in Committee agendas at February meetings. The Annual assurance report to Council presented to the June Committee also demonstrates this. Proposed Action: <i>Members to consider areas identified for improvement in the Annual Governance Statements against their work and training plans, to ensure coverage of all areas the committee requires assurances from.</i>
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	No complaints from Council. Annual report to Council appears on June Audit Committee agenda allows members to comment and challenge the Committee's work. Evidence that the Committee is reviewing issues aligned to the Strategic Risks of the Council and the Annual Governance Statement action plans (IT, Commissioning, etc.). Proposed Action: <i>An action to review this, to keep it current, is included above.</i>
	Functions of the committee		

	Good practice questions	Yes/ No/ Partly	Evidence
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFAs Position Statement?	Yes	
	<ul style="list-style-type: none"> • Good governance 		ToR para 9+
	<ul style="list-style-type: none"> • Assurance framework 		ToR para 9+
	<ul style="list-style-type: none"> • Internal audit (IA) 		ToR para 18+
	<ul style="list-style-type: none"> • External audit 		ToR para 29+
	<ul style="list-style-type: none"> • Financial reporting 		ToR para 34+
	<ul style="list-style-type: none"> • Risk management 		ToR para 12+
	<ul style="list-style-type: none"> • Value for money or best value 		ToR para 11+
	<ul style="list-style-type: none"> • Counter-fraud and corruption 		ToR para 16+
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?	Yes	Evaluation is through the: <ul style="list-style-type: none"> • Self-assessment of compliance with this best practice document, reported to November. • Annual report to Committee is written to map back to the terms of reference.

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> • Annual work plan, reported to February Committee, which maps back to the ToR. • Agendas, minutes and reports of Committee support that all core areas are being reviewed.
9	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	<p>Wider areas are:</p> <ul style="list-style-type: none"> • Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para 6. • Ethical Values – The Committee does not have responsibility for reviewing ethical standards. A separate Standards Committee which has this responsibility is held as and when required. • Treasury Management – The Committee covers this responsibility as evidenced by its ToR para 36+.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	<p>No limitations have been found, evidence is demonstrated openly on the Internet in the:</p> <ul style="list-style-type: none"> • Work plan • Regular Committee reports • ToR

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> Annual report to Council Lack of negative feedback from Council and statutory officers <p>Proposed Action: <i>The proposed action at 5 above, will continue to ensure this.</i></p>
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?	Yes	ToR, especially para 42, sets out decision making powers. Review of work plans, agendas, reports and minutes demonstrate this, all are available on the Internet.
	Membership and support		
12	Has an effective audit committee structure and composition of the committee been selected? This should include:	Partly	
	<ul style="list-style-type: none"> Separation from the executive 	Yes	ToR, para 1 Where it has been recognised that Members have conflicting responsibilities, they have resigned from the Committee.
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership 	Partly	ToR, para 43+ This will be further demonstrated by self-assessments when completed by Members which will help to inform the training plans covered in publically available reports on the Committee's work plan (February) and the annual report to Council (June). Members have wide experience and continuity of knowledge, some of which sit on Audit Committee's for other public

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>sector organisations, they also have private business knowledge, financial, and governance awareness. Where members feel further knowledge or training is required they have the opportunity to and do raise this, demonstrated through work, training plans and self-assessments once completed</p> <p>Proposed Action: <i>Consider feedback from skills self-assessment for members, November 2017.</i></p>
	<ul style="list-style-type: none"> A size of committee that is not unwieldy 	Yes	ToR, para 1
	<ul style="list-style-type: none"> Where independent members are used, that they have been appointed using an appropriate process. 	Yes	<p>There are currently no independent members on the Committee.</p> <p>Appointment would follow good recruitment processes including evaluation of the skills sets required, advertising, clear job specifications and descriptions, selection and awarding processes.</p>
13	Does the chair of the committee have appropriate knowledge and skills?	Yes	<p>Chair is new to the role. Completion of self-assessment confirms appropriate knowledge and skills are in place. Evidenced by attendance at Committee and resulting recommendations and minutes, available on public web sites.</p> <p>The Chair also works closely with the S151 Officer and Head of Audit to retain current knowledge and management of risks as they develop.</p>

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>Proposed Action: <i>The new Chair may wish to consider shadowing an established Audit Committee Chair for another organisation to build on their understanding of the role and further refine their approach.</i></p>
14	Are arrangements in place to support the committee with briefings and training?	Yes	<p>Regular training sessions are agreed with the Chair and wider members of the Committee.</p> <p>Demonstrated by:</p> <ul style="list-style-type: none"> • Completion of the skills assessment (agreed to be refreshed every two years, to be completed autumn 2017). • Committee work plan (February Committee agenda) • Evidence of training including agendas, supporting training documents etc. available on request. • CIPFA’s Better Governance Framework provides members with up to date briefing papers at least twice a year and all members can access the web site which provides weekly updates. Specialist training sessions are also accessible through this subscription. • External auditors provide training sessions available to members – demonstrated in their updates to the Committee.

	Good practice questions	Yes/ No/ Partly	Evidence
			Proposed Action: <i>The proposed action at 12 above, will continue to ensure this.</i>
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	No	Self-assessments have been shared with members for completion autumn 2017 Proposed Action: <i>By completing the action in 12 above, alongside Recommendation C, compliance can be achieved.</i>
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	Demonstrated by regular attendance at all Committees by these key stakeholders and the professional manner in which the meetings are managed. Interviews with all parties would help to support this conclusion.
17	Is adequate secretariat and administrative support to the committee provided?	Yes	Regular qualified and experienced secretarial support is provided to all Committee meetings.
	Effectiveness of the committee		The Committee will be evaluating its effectiveness by Members working through and completing a self-assessment to feed into this overall assessment, see results at Appendix B . In addition completion of the skills and training requirements will help support this. A training session in October 2017 revisited the skills matrices and effectiveness of the Audit Committee.
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	Committee has received verbal feedback from members, officers and external audit which is fed into the effectiveness evaluation below.

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>Proposed Action: <i>Committee to consider the benefit of more formal feedback or support from an external body, i.e. CIPFA to help assess its performance.</i></p>
19	<p>Has the committee evaluated whether and how it is adding value to the organisation?</p>	Partly	<p>Demonstrated by the year-end report sent to Council in September (agreed by Audit Committee in June) which sets out delivery in the following areas:</p> <ul style="list-style-type: none"> • Promoting the principles of good governance and their application to decision making; advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively • Contributing to the development of an effective control environment • Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks • Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> • Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements • Supporting the development of robust arrangements for ensuring value for money • Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks • Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability <p>Proposed Action: <i>The proposed action at 5 above, will continue to ensure this in addition to completing the self-assessment: Evaluating the effectiveness of the audit committee.</i></p>
20	Does the committee have an action plan to improve any areas of weakness?	No	The committee has new membership from April and already has planned training sessions in place based on topics included in the work plan (February) and effectiveness of the Audit Committee (November) public reports. Committee have also agreed to run self-assessments against the skills matrices and effectiveness of the

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>Committee on a biennial basis. Information from these will inform action plans.</p> <p>Proposed Action: <i>See Recommendation C. The actions proposed throughout this document will help to identify the Audit Committee's improvement plan going forward.</i></p>