



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
28 th June 2018	
13:30 pm	<u>Public</u>

AUDIT COMMITTEE EFFECTIVENESS: SELF-ASSESSMENT OF GOOD PRACTICE

Responsible Officer James Walton

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1. Summary

At an Audit Committee meeting, 30 November 2017, Members were asked to review and comment on the Audit Committee self-assessment of good practice questionnaire. 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 enhance its overall effectiveness. The self-assessment identified high levels of compliance with accepted good practice. Following discussion and consideration of the item, Members resolved that the self-assessment of good practice be further enhanced by exploring options for external facilitation to assess the skills and overall effectiveness of the Committee against best practice and that an action plan be created to improve any identified areas of weakness.

This report provides information on the actions taken to date and seeks approval of the resulting action plan.

2. Recommendations

Members are asked to:

- A. Consider the outcome of the external facilitation assessing the Audit Committee's effectiveness against good practice attached at **Appendix A** and identify any errors or amendments required.
- B. Approve the resulting action plan to include any member comments or amendments at **Appendix B**

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. The added benefit of using a knowledgeable external facilitator to do this increased the level of challenge and added value to the process.
- 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

The cost of the external facilitator was met from approved budgets, 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 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. Members considered the outcome at their meeting in November 2017 when they resolved that the self-assessment of good practice be further enhanced by exploring options for external facilitation to assess the skills and overall

effectiveness of the Committee against best practice and that an action plan be created to improve any identified areas of weakness.

- 5.4 Elizabeth Humphries from CIPFA was engaged to facilitate a workshop in March 2018 following which an action plan has been drafted, shared with the Chair and Audit Committee members for further consideration and agreement. Details were emailed to all Audit Committee members on the 11 April 2018.
- 5.5 The outcome report and suggested action plan appears as **Appendix A and B**. The first training session (20th June 2018) has been postponed and a revised date will be agreed for delivery, further input and agreement is now also sought for future training topics. Dates for the next two sessions are provisionally arranged for 4 September and 27 November 2018.
- 5.6 Members are asked to consider the following questions:
 1. Do you agree or wish to adjust the outcome of the facilitated session as noted in **Appendix A**?
 2. Where agreed do you support the actions proposed in the action plan, **Appendix B**?
 3. Some of the actions proposed in Appendix B raise further questions for consideration. Please consider and respond to these appropriately:
 - i. **Recommendation 1:** *Audit Committee to consider the rationale against which they require managers, Internal or External Audit to provide assurances on specific matters, and the Portfolio Holder when these need to be escalated. This can be considered at a training session or as part of each meeting.*
 - ii. **Recommendation 2:** *Question: Would members like a training session prior to the June Committee to run through the process in compiling the AGS and the AC's role, to see if any changes would be beneficial.*

Given the timing of Committees and training it has been agreed with the Chairman to cover this at the June training.
 - iii. **Recommendation 5:** *Question: Would members like this to be considered and added to their annual work programme, with appearances from strategic risk managers to be added to agendas or covered as part of a future training session?*
- 5.7 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 (8 March 2018)
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B: Proposed improvement plan for an effective Audit Committee 2018/19

Appendix A: Self-assessment of Good Practice (8 March 2018)

Areas where the audit committee can add value by supporting improvement Score	Evidence	Actions	Ref
<p>Promoting the principles of good governance and their application to decision making</p> <p>4</p>	<p>Examine and approve the AGS before taking to Council – clearly Shropshire driven and source documents referenced. Can amend.</p> <p>Provide challenge, going through the salient features of the AGS and more broadly (ask questions in meetings to encourage transparency).</p> <p>AGS includes logging of failures and draws together a year's worth of work.</p> <p>Officers (IA, EA and senior management) report their activities and are questioned and can call in officers as necessary to explain actions.</p> <p>S151 and CAE attend every meeting and share their opinions and views.</p> <p>Look for variations in reports to interim meetings and follow up at the next meeting.</p> <p>Can request Cabinet member and leader to attend meetings.</p> <p>Internal Audit Quality Assurance and Improvement Programme (QAIP).</p> <p>Code of Governance report from IA.</p> <p>Extra meetings of the AC if necessary.</p> <p>Pre-meeting briefings for the Chair.</p>	<p>Improve engagement with Cabinet members</p> <p>Include AC members on AGS working groups</p>	<p>1</p> <p>2</p>
<p>Contributing to the development of an effective control environment</p> <p>3</p>	<p>Can call in portfolio holders and officers if necessary (recently done for IT), especially rejected recommendations, unimplemented recommendations and low assurance reports.</p>	<p>For rejected recommendations and slow implementation, could portfolio holders be more involved?</p>	<p>3</p>

Areas where the audit committee can add value by supporting improvement Score	Evidence	Actions	Ref
	<p>Require reasons for rejected recommendations and AC reviews these.</p> <p>Have asked departments that are struggling to report back to the AC.</p> <p>Ensure that they are process driven and don't cross into Scrutiny.</p> <p>See summary IA reports, giving the headlines and assurance level.</p> <p>Receive major project updates: on track and on budget.</p> <p>Review control documents.</p> <p>Approve annual audit plans to direct audit resources, including the hours in the plan and discuss IA resources as part of the planning process (some constraints because of reducing audit resources and if this becomes unsustainable, will refer to the Leader).</p> <p>Have an annual AC work plan.</p>	<p>Need to understand how matters are referred to the administration (chief executive, senior management and other members)</p>	4
<p>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risk 3.5</p>	<p>Risk management department reports strategic risks at each AC meeting, explaining the changes in the risk score and highlighting continuing high risks. Can challenge scoring.</p> <p>The AGS actions tie up to strategic risks.</p> <p>Recent training on the use of risk registers.</p> <p>Can look at risks in depth, with the risk owner and get a good explanation from officers so can judge the appropriateness of the assessment.</p> <p>Annual report from IA looks at the risk management framework, with some risk benchmarking.</p>	<p>Could risk owners be more involved in reporting on risks to the AC?</p> <p>Need to clarify reporting of concerns up through the organisation (e.g. from departments to senior management to members) – linked to 4?</p>	<p>5</p> <p>6</p>

Areas where the audit committee can add value by supporting improvement Score	Evidence	Actions	Ref
	AC can suggest items for the strategic risk register. Overlaps between risks on the risk register are highlighted. Have an informal (unstated) risk appetite and see the risk appetite reflected in audit reports.		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively 3	Annual audit opinion. Interim audit reports. EA warnings on budget. EA attends every AC meeting and reports issues. Risk reports. Management reports to provide assurance. Look for omitted items/analyse presented information. Match what they are told to the information given. Check for acknowledgement of problems. S151 attends AC to feedback on the budget. Commission topic reports.	Develop a more structured understanding of the assurance activities and assurance provided to the AC.	7
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence 4	QA reports from IA reporting the annual self-assessment and the external validation to the AC. Would be told by CAE if there were problems with independence but take it on trust that IA is independent. Would pick up on changes in behaviour/reports that might indicate problems. Would have to go through the AC to change audit plans. Might identify problems through reducing performance.	Audit to provide more explanation regarding the importance and relevance of the items they present. Audit Committee members to help improve awareness of the assurance framework and governance structures to non-committee members	8 9

Areas where the audit committee can add value by supporting improvement Score	Evidence	Actions	Ref
	<p>All three political groups would react and work together if problems arose.</p> <p>Have a knowledgeable AC.</p> <p>Annual independence statement from IA in the Annual Report.</p> <p>CAE has the right to talk to various people if there are problems with independence.</p> <p>Interim IA reports to every meeting on achievement against the work plan and the AC queries changes, missing items, delays.</p> <p>CAE's appraisal is done by s151 and reported to the AC. Information to support it is gathered widely.</p> <p>Member training helps them ask sharper questions.</p> <p>EA would draw the Chair's attention to problems, especially around independence.</p>		
<p>Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements</p> <p>3</p>	<p>AC role to look back at failures and examine and learn to identify lessons.</p> <p>Ensure that priorities for achievement by the authority are done satisfactorily – look at controls.</p> <p>Review arrangements to develop the corporate plan.</p> <p>AC seeks assurance around DTP controls over the period of the programme. Update at every meeting on progress from the project manager.</p> <p>Audits of progress are also reported to the AC.</p> <p>Audit plan is structured around the strategic risks to the strategic objectives.</p> <p>Flexible audit plan.</p>	<p>Are strategic areas for improvement being reported sufficiently often to the AC? And how is this done?</p>	<p>10</p>

Areas where the audit committee can add value by supporting improvement Score	Evidence	Actions	Ref
Supporting the development of robust arrangements for ensuring value for money 3	EA's opinion on value for money and some in-year feedback from them. EA's report looks at spend against budget and use of resources. All formal reports to members raise financial implications and decision implications. Will highlight training needs if performance or VfM are decreasing (who will do this?). Outturn reports to AC, together with performance reports. Hold officers to account and require them to attend meetings.	Setting of financial strategy and interim budget reports to AC. Reports to members from officers could state what they are doing to deliver VfM. Need to decide what the authority means by VfM.	11 12 13
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks 4	Strategies for both presented to the AC. Reports on current investigations in part 2. NFI reports. Summary of outcome of investigations and activities in part 1. Whistleblowing policy and annual report to AC. Annual review of corporate fraud activity against fraud risks taken to the AC. Look at CIPFA fraud and corruption tracker. Members reminded of Nolan principles. Officers code of conduct. IA code of ethics checked and reported to the AC.	Is the whistleblowing policy public enough? AC could see the fraud risk register if desired. Fraud training for the AC.	14 15 16
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	AC annual report to Council – what they've done and why. Very little business in part 2. Annual accounts and report on the website.	Could more use be made of social media?	17

Areas where the audit committee can add value by supporting improvement Score	Evidence	Actions	Ref
3	AC members attend Parish/Town Council meetings to feedback. Highlight agenda items to press for inclusion in local papers. Put items in local newsletters. Have public question time at the start of meetings.		

Elizabeth Humphrey CPFA

Appendix B: Proposed improvement plan for an effective Audit Committee 2018/19

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/Member	Date
Promoting the principles of good governance and their application to decision making					
	Improve engagement with Cabinet members	1	<p>Audit Committee (AC) members to identify when it is appropriate to request Cabinet members to attend a Committee to provide assurances in each area of governance or internal control.</p> <p>Audit Committee to consider the rationale against which they require managers, Internal or External Audit to provide assurances on specific matters, and the Portfolio Holder when these need to be escalated. This can be considered at a training session or as part of each meeting.</p>	Chair of Audit Committee	From May 2018
	Include AC members on AGS working groups	2	As part of the Annual Governance process, in June	Chair of Audit Committee	TBA ¹ June 2018

¹ TBA to be arranged

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/Member	Date
			<p>each year, the AC receive and review a copy of the AGS and are asked to comment on the framework. This is set out as an Annex to the AGS. This demonstrates the process followed in agreeing and compiling the AGS. Evidence can be made available at a training session, or at the AC meeting in June, for further review as required.</p> <p><i>Question:</i> Would members like a training session prior to the June Committee to run through the process in compiling the AGS and the AC's role, to see if any changes would be beneficial.</p>		
Contributing to the development of an effective control environment					
	For rejected recommendations and slow implementation, could portfolio holders be more involved?	3	See response to one above. This is one for members to decide and approve.	Chair of Audit Committee	From May 2018

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/ Member	Date
	Need to understand how matters are referred to the administration (chief executive, senior management and other members)	4	A session can focus on this at a training event as part of the Annual Governance approach. See 2 above	Chair of Audit Committee	TBA June 2018
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risk					
	Could risk owners be more involved in reporting on risks to the AC?	5	AC members could request owners of strategic risks to attend AC on a rotational basis to explain the risks they are managing and their targeting and delivery of improvements to do this to improve the control environment. <i>Question: Would members like this to be considered and added to their annual work programme, with appearances from strategic risk managers to be added to agendas or covered as part of a future training session?</i>	Chair of Audit Committee	TBA September 2018
	Need to clarify reporting of concerns up through the organisation (e.g. from departments to senior	6	A session can focus on this at a training event as part of the Annual Governance approach.	Chair of Audit Committee	TBA June 2018

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/ Member	Date
	management to members) – linked to 4?		See 2 and 4 above		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively					
	Develop a more structured understanding of the assurance activities and assurance provided to the AC.	7	Agendas can be reformatted to demonstrate more transparently where assurances are being provided from. A session on different assurance providers and how they feed into the AGS at a training session can help members to explore their understanding and where further improvements may be required or beneficial. See 2 above.	Head of Audit Chair of Audit Committee	28 June 2018 TBA June 2018
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence					
	Audit to provide more explanation regarding the importance and relevance of the items they present.	8	Committee reports will be considered by officers and members and where further clarity is required this will be sought and delivered. Could explore any issues as part of a training session	All Chair of Audit Committee	From June 2018 TBA June 2018

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/ Member	Date
			around the AGS and areas providing assurance. See 2 above.		
	Audit Committee members to help improve awareness of the assurance framework, including the work of Internal Audit, and governance structures to non-committee members.	9	A session on different assurance providers and how they feed into the AGS at a training session can help members to explore their understanding and where further improvements may be required or beneficial. Following which they can consider how they can share this knowledge with others. See 2 above.	Chair of Audit Committee	TBA June 2018
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements					
	Are strategic areas for improvement being reported sufficiently often to the AC? And how is this done?	10	A training session showing the relationships between the AGS, strategic risks, AC work plan and subsequent reports can support Members in challenging whether there is more information that they require on a more regular basis. This fits in well with training on the AGS and assurance framework and it is	Chair of Audit Committee	TBA June 2018

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/ Member	Date
			proposed this should form part of that session. See 2 above.		
Supporting the development of robust arrangements for ensuring value for money					
	Setting of financial strategy and interim budget reports to AC.	11	With support from the Head of Finance, Governance and Assurance, Members can explore if further assurance reports are required on finance strategies and budget reports. This would fit in with an exploration of assurance provision as part of the wider AGS/ strategic risks training proposed in 2 above	Chair of Audit Committee	TBA June 2018
	Reports to members from officers could state what they are doing to deliver VFM.	12	<p>Trial reports to June Audit Committee and how they demonstrate VFM by adding some text into each under the financial implications section. This can be reviewed to see if it adds value to the reader and if it does, it could potentially be rolled out wider in other committee reports.</p> <p>This approach can also be explored at a future training session around the AGS and</p>	Head of Finance, Governance and Assurance	28 June 2018

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/Member	Date
			areas providing assurance. See 2 and 8 above.		
	Need to decide what the authority means by VFM.	13	This can be explored as part of a future training session.	Chair of Audit Committee	TBA September 2018
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks					
	Is the whistleblowing policy public enough?	14	Members receive an annual whistleblowing report on the public agenda and the policy is available to all. The accessibility of this and its communication can be considered further at a future training session of the Committee.	Chair of Audit Committee	TBA November 2018
	AC could see the fraud risk register if desired.	15	The fraud risk register can be demonstrated at a future training session. See 14 above	Chair of Audit Committee	TBA November 2018
	Fraud training for the AC.	16	The Committee can receive fraud training as a refresh. This could form part of the session proposed in 14.	Chair of Audit Committee	TBA November 2018
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability					

Areas where the audit committee can add value by supporting improvement	Action identified in training	Ref	Proposed delivery approach	Lead Officer/Member	Date
	Could more use be made of social media?	17	A future AC Training session could be used to identify the desired outcomes of better communication with the organisation and the wider public. As part of this the Committee can explore the different social media channels available to its members – advantages and disadvantages. To enable members to identify any appropriate future opportunities.	Chair of Audit Committee	TBA November 2018