

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	1st APRIL 2015	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/audit committee/effectiveness/self-assessment review March 2015
SUBJECT:	EFFECTIVENESS OF THE AUDIT SUB COMMITTEE – SELF ASSESSMENT	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

- 1.1 That the effectiveness self-assessment undertaken by Members of the Audit Sub Committee is reviewed and noted.
- 1.2 That the weaknesses identified and the associated actions for improvement are approved.

2.0 Purpose of the Report

- 2.1 To provide the results of the self-assessment undertaken by Members of the Audit Sub Committee regarding the Committee's effectiveness.
- 2.2 All current Members of the Audit Sub Committee met on 11th March 2015 to collectively assess the Committee's effectiveness against best practice guidance and a checklist published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.0 Detail

- 3.1 It is considered that audit committees have an important role in the governance of councils and it is recommended by CIPFA that their effectiveness is regularly reviewed. At its meeting on 17th December 2014, the Audit Sub Committee agreed to self-assess its effectiveness against best practice principles.
- 3.2 This is the first review the Committee has undertaken since CIPFA updated its guidance in December 2013 and follows a review of the Audit Sub Committee's terms of reference, together with an update of the knowledge and skills framework for audit committees.

Self-Assessment Checklist

- 3.3 This is detailed in **Appendix 1** which sets out the response by Members against each of the questions or issues raised. Generally, the Members were satisfied that the Committee met most of the good practice points regarding its purpose, terms of reference, together with its membership and support.
- 3.4 Out of the 20 questions on its role, Members were able to answer positively to 17, with 2 being considered to be partly met and only 1 more significant improvement identified. These are detailed in the following table, which also identifies how improvement can be made on each issue.

Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Partly met	<i>Not all knowledge areas have been formally assessed – recommend that this is undertaken prior to the commencement of each municipal year following appointment to the Committee. This will also highlight any training and development needs of Members.</i>
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Not met	<i>Recommend that Internal and External Audit are asked for feedback on the overall operation of the Committee and whether it is sufficiently proactive and supportive of the Auditor's work</i>
Does the committee have an action plan to improve any areas of weakness?	Partly met	<i>Training needs have previously been identified, but a more robust plan will be drawn up to improve the role of the Committee as identified in this review.</i>

- 3.5 On the actual qualitative measures of effectiveness, Members were generally satisfied that these were substantially met. Out of the 9 distinct areas, only 2 were considered to be in need of improvement, as highlighted in the following table.

Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.	<i>This is considered a weakness as the Committee does not ordinarily review major projects, for example, the current programme of New Build in the HRA. Recommended that any major projects are included specifically in future audit plans for a governance review, or plans adjusted to reflect new projects to enable assurance to be sought as early as possible.</i>
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<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p>	<p><i>This is considered a weakness as the Committee has rarely focused on this issue. The Committee has reviewed the Council's arrangements for meeting the Transparency Code of Practice. However, more general public reporting and in particular decision making through partnerships has not been specifically considered.</i></p> <p><i>It is recommended that where audits touch on the Council's significant partnership arrangements, this issue is included within the scope of the audit in addition to operational/contract arrangements.</i></p>
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4.0 Financial Implications

4.1 None

5.0 Corporate Implications

5.1 None directly

6.0 Community Implications

6.1 None directly

7.0 Background Papers

7.1 None

Self-assessment of Good Practice and Effectiveness

Note: All references to “Committee” mean the Audit Sub Committee

Good practice questions	Yes	Partly	No
Audit committee purpose and governance			
1 Does the authority have a dedicated audit committee?	Yes		
2 Does the audit committee report directly to full council?	Yes		
3 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA’s Position Statement?	Yes		
4 Is the role and purpose of the audit committee understood and accepted across the authority?	Yes		
5 Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes		
6 Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes		
Functions of the committee			
7 Do the committee’s terms of reference explicitly address all the core areas identified in CIPFA’s Position Statement?			
• Good governance	Yes		
• Assurance framework	Yes		
• Internal audit	Yes		
• External audit	Yes		
• Financial reporting	Yes		
• Risk management	Yes		
• Value for money	Yes		
• Counter-fraud and corruption	Yes		
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		
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?	Yes		
10 Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes		
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		

Good practice questions	Yes	Partly	No
Membership and support			
<p>12 Has an effective audit committee structure and composition of the committee been selected? 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 • <i>Where independent members are used, that they have been appointed using an appropriate process. (NOT APPLICABLE)</i> 	Yes		
	Yes		
	Yes		
	N/a		
13 Does the Committee chairman have appropriate knowledge and skills?	Yes		
14 Are arrangements in place to support the committee with briefings and training?	Yes		
<p>15 Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p> <p>Not all knowledge areas have been formally assessed – recommend that this is undertaken prior to the commencement of each municipal year following appointment to the Committee. This will also highlight any training and development needs of Members.</p>		Partly	
16 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes		
17 Is adequate secretariat and administrative support to the committee provided?	Yes		
<p>18 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?</p> <p>Recommend that Internal and External Audit are asked for feedback on the overall operation of the Committee and whether it is sufficiently proactive and supportive of the Auditor's work.</p>			No
19 Has the committee evaluated whether and how it is adding value to the organisation?	Yes		
<p>20 Does the committee have an action plan to improve any areas of weakness?</p> <p>Training needs have previously been identified, but a more robust plan will be drawn up to improve the role of the Committee as identified in this review.</p>		Partly	

Evaluating the effectiveness of the audit committee

Key

- 5 Clear evidence is available from a **number** of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are **clearly identifiable**.
- 4 clear evidence from **some** sources that the committee is actively and effectively supporting improvement across some aspects of this area
- 3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also **significant gaps**
- 2 There is some evidence that the committee has supported improvements, but the **impact** of this support is **limited**.
- 1 **No evidence** can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation examples – areas of strength and weakness	Overall assessment; 5 – 1 (see key above)
Promoting the principles of good governance and their application to decision making	Providing robust review of the AGS and the assurances underpinning it. Working with key members to improve their understanding of the AGS and their contribution to it. Supporting review/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	<i>AGS reviewed and signed off annually, together with mid-year review of work plan. Local Code of Corporate Governance maintained and reviewed by the Committee twice per year. Member of CMAP enables sharing of approach and provides opportunities for improvement.</i>	4
Contributing to the development of an effective control environment	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	<i>Recommendation tracking reviewed by the Committee on a quarterly basis. Committee have asked for "report backs" on concerns raised; for example, bank reconciliation, procurement and most recently, Health and Safety at the Depot.</i>	5
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account for major / strategic risks.	<i>Arrangements regularly reported to the Committee and reviewed. The Committee does not hold risk owners to account for specific risks and it is considered that this is not a function of this Committee..</i>	4
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeing to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	<i>The Committee reviews Audit Plans prior to work commencing and considers risk areas. Annual reviews of Auditors considered and Value Statement signed off.</i>	5
Supporting the quality of the internal audit activity, particularly by underpinning its organisational	Reviewing the Internal Audit Charter and functional reporting arrangements. Assessing the effectiveness of	<i>As above. Internal Audit Charter approved and reviewed when necessary. Internal Audit provided by</i>	5

independence	internal audit arrangements and supporting improvements.	<i>CMAP whose officers are independent of the Council.</i>	
Aiding the achievement of the Authority's goals and objectives through helping to ensure appropriate governance, risk control and assurance arrangements.	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.	<i>This is considered a weakness as the Committee does not ordinarily review major projects, for example, the current programme of New Build in the HRA. Recommended that any major projects are included specifically in future audit plans for a governance review, or plans adjusted to reflect new projects to enable assurance to be sought as early as possible.</i>	1
	Reviewing the effectiveness of performance management arrangements.	<i>This is regularly reported and considered by the Committee.</i>	5
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	<i>Any areas for improvement reported to the Committee are set out in a work plan and this is monitored by the Committee. This is also included in the AGS.</i>	5
Helping the Authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangement against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2) Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.	<i>This is discharged through the annual "Informing the Audit Risk Assessment" undertaken by External Audit. The Committee consider the Council's arrangements against potential risks identified and monitors any actions arising.</i>	5
Promoting effective public reporting to the Authority's stakeholders and local community and measures to improve transparency and accountability	Improving how the Authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.	<i>This is considered a weakness as the Committee has rarely focused on this issue. The Committee has reviewed the Council's arrangements for meeting the Code of Practice on Transparency. However, more general public reporting and in particular decision making through partnerships has not been specifically considered. It is recommended that where audits touch on the Council's significant partnership arrangements, this issue is included within the scope of the audit in addition to operational/contract arrangements.</i>	3