

Subject: REPORT ON AUDIT AND RISK COMMITTEE SELF ASSESSMENT

Report to: Audit and Risk Committee, 15 February 2021

Report by: Faye Haywood, Internal Audit Manager for Gt Yarmouth BC

SUBJECT MATTER

This report provides the results from the 2020 Audit and Risk Committee self-assessment exercise. We recommend that the previous year's self-assessment exercise is reviewed and updated considering any progress made against agreed improvement actions.

1. INTRODUCTION/BACKGROUND

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) document on "audit committees – practical guidance for local authorities and police" sets out the guidance on the function and operation of Audit Committees. It represents CIPFA's view of best practice, and states "the purpose of an audit committee is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes".
- 1.2.1 The Section 151 Officer has overarching responsibility for discharging the requirement for sound financial management, and to be truly effective requires an audit committee to provide support and challenge.
- 1.3 Good audit committees are characterised by; balanced, objective, independent, knowledgeable and properly trained Members, a membership that is supportive of good governance principles, a strong independently minded chair, an unbiased attitude and the ability to challenge when required.
- 1.4 It is therefore good practice for audit committees to complete a regular self-assessment exercise against a checklist, to be satisfied that the Committee is performing effectively.
- 1.5 In addition, the Public Sector Internal Audit Standards (PSIAS) also call for the audit committee to assess their remit and effectiveness, in relation to Purpose, Authority and Responsibility, to facilitate the work of this Committee.
- 1.6 The updated guidance provides two tools against which the Committee can assess itself, the first (self-assessment of good practice) supports an assessment against recommended practice to inform and support the Committee. The second assessment tool (evaluating the effectiveness of the audit committee) helps audit committee members to consider where it is more effective and where there may be scope to do more. To be effective the Committee should be able to identify evidence of its impact or influence linked to specific improvements.

2. RESULTS OF THE SELF ASSESSMENT AND AGREED IMPROVEMENTS

2.1 The results of the 2020 assessment are attached in full at **Appendix 1** to this report. The following sections were scored **partial** or **no** by the Audit and Risk Committee last year. The improvement actions agreed at the January 2020 meeting are provided below:

2.2 The following questions were scored by the Audit and Risk Committee as partial compliance:

- Is the role and purpose of the audit committee understood and accepted across the authority?
- Are the arrangements to hold the committee to account for its performance operating satisfactorily?

The following question was scored by the Audit and Risk Committee as not in conformance:

- 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?

Whilst it was discussed that there is a general understanding of the importance of the role of the of the Audit and Risk Committee, the Committee felt that more could be done to raise awareness and inform the Council of its performance in fulfilling its terms of reference.

It was agreed that this would be achieved by producing an Annual Report of the Audit and Risk Committee and presenting this to Full Council. Typically, this report provides details of work carried out throughout the year and any significant relevant information regarding the risk, control and governance framework. The report can be used to seek feedback from members of the Council on the performance of the Audit and Risk Committee. It was agreed that advice would be taken from the Monitoring Officer on how to proceed with this action. However due to the impact of the Coronavirus Pandemic on re-prioritising workloads this was not actioned.

2.3 The following questions were scored by the Audit and Risk Committee as not in conformance:

- 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?
- Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?

The Audit and Risk Committee had not carried out a self-assessment exercise before 2020. Therefore, as a result, the above has not been completed. Both the CIPFA Position Statement and the Core Knowledge and Skills Framework were circulated to members for discussion. No requests for additional training were received.

2.4 The following questions were scored by the Audit and Risk Committee as partial compliance:

- Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?
- Has the committee evaluated whether and how it is adding value to the Organisation?

Both of the above points will be addressed by the action described in 2.2 i.e. An Annual Report of the Audit and Risk Committee. In addition, a self-assessment will now be carried out by the Audit and Risk Committee on an annual basis.

3. **FINANCIAL IMPLICATIONS**

3.1 None.

4. **RISK IMPLICATIONS**

4.1 Regular self-assessment of the Audit and Risk Committee allows appropriate support and challenge of the Council's Governance, Risk and Control Framework.

5. **CONCLUSIONS**

5.1 The 2020 Audit and Risk Committee self-assessment exercise resulted in most areas being scored as in conformance with CIPFA recommended best practice in relation to the role and effectiveness of an Audit Committee. For those areas where partial or non-compliance have been identified, actions to address gaps in best practice were identified and agreed by the Audit and Risk Committee. Progress against completing these actions will be discussed and the self-assessment checklist updated.

6.0 **RECOMMENDATIONS**

6.1 That the Committee reviews the 2020 self-assessment exercise and related improvement actions and through discussion, updates the assessment with progress and outline if new actions if required.

BACKGROUND PAPERS

Appendix 1 – CIPFA Audit and Risk Committee Self-Assessment Results 2020.

Area for consideration	Comment
Monitoring Officer Consultation:	No
Section 151 Officer Consultation:	Yes
Existing Council Policies:	No
Financial Implications:	No
Legal Implications (including human rights):	No
Risk Implications:	Yes
Equality Issues/EQIA assessment:	No
Crime & Disorder:	No
Every Child Matters:	No

Self-assessment of good practice

This evaluation will support an assessment against recommended practice to inform and support the Audit Committee. This is a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. Where an Audit Committee has a high degree of performance against the good practice principle's then it is an indicator that the committee is soundly based and has in place knowledgeable membership. These are essential factors in developing an effective Audit 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 authority?	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?		Partly	
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?		Partly	
	Functions of the committee			
7	Do the committee's terms of reference explicitly address all the core area identified in CIPFA's position statement? <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 	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?			No
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?			No
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	n/a		

Appendix 1

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		
	Membership and support			
12	Has an effective audit committee structure and composition of the board been selected? This should include: - Separation from the executive - An appropriate mix of knowledge and skills among the membership - A size of committee that is not unwieldy - Where independent members are used, that they have been appointed using appropriate process	Yes		
13	Does the chair of the committee have appropriate knowledge and skills?	Yes		
14	Are arrangements in place to support the committee with briefings and training?	Yes		
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			No
16	Does the committee have good working relationships with key people and organisations, including external audit, internal audit and the chief finance officer?	Yes		
17	Is adequate secretariat and administrative support to the committee provided?	Yes		
	Effectiveness of the committee			
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		Partly	
19	Has the committee evaluated whether and how it is adding value to the organisation?		Partly	
20	Does the committee have an action plan to improve any areas of weakness?	Yes		

4) It is felt that the Council has limited awareness of the importance of the role of the audit committee. More could be done to raise awareness i.e. annual report on work of committee.

6) The Council is not made aware of the work undertaken by the Audit Committee through an annual report.

8) An annual evaluation on effectiveness has not been carried out recently. This will be completed as part of the annual report to demonstrate how the Audit Committee is fulfilling its terms of reference.

9) Further areas of involvement have not been discussed. CIPFA guidance provided to members of the Audit Committee.

15) Core areas of skills will be provided to committee for consideration and if further areas of training are required these will be requested.

18) No feedback has been obtained, this can also be done through the annual report or by the Chair requesting feedback from Leader.

19) Adding value – A self-assessment of the Audit Committee has not been carried out prior to this but will be carried out annually in the future.

Appendix 1

Evaluating the Effectiveness of the Audit Committee

This assessment tool helps Audit Committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the Audit Committee should be able to identify evidence of its impact or influence linked to specific improvements.

Assessment Key:

- 5 Clear evidence is available from a number of sources that the committee is actively supporting the improvement 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	Self-evaluation examples, areas of strength & weakness	Assessment 1-5
Promoting the principles of good governance and their application to decision making	The Committee meets regularly. Questions and challenges as appropriate, as shown through the minutes. The Committee seeks to gain assurance as needed on the reports received. The Committee provides robust review of the Annual Governance Statement and the assurances underpinning it. Through the reports received & the questions raised, the Committee supports reviews / audits of governance arrangements.	4

Appendix 1

Contributing to the development of an effective control environment	<p>The Committee monitors the implementation of recommendations made by the auditors, and regularly challenges those that are overdue. Committee has taken a proactive role in asking officers to attend where historical recommendations remain open to challenge responses provided.</p> <p>The Committee encourages ownership of the internal control framework by appropriate managers and calls managers to account as necessary / required.</p> <p>The Committee raises significant concerns over controls with appropriate senior managers through those presenting the reports and by calling Managers to attend the meeting.</p>	4
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<p>The Committee reviews risk management arrangements and their effectiveness. It monitors improvements and holds risk owners to account for corporate risks. The Committee also feed into the development and sign off of the risk management framework policy.</p>	4
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<p>The Committee seeks to streamline assurance gathering and reporting where appropriate.</p> <p>The Committee reviews and assesses the effectiveness of assurance providers e.g. internal audit, risk management, external audit through its questioning and challenging of the reports received. Committee has taken an active role in supporting officers during the delay of the external audit. Actively challenging responses from EY on reasons for delays.</p> <p>The Committee makes suggestions for areas of inclusion in the annual audit plan based on significant risks they become aware of.</p>	4

Appendix 1

Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<p>The Committee reviews the audit charter and functional reporting arrangements as part of the annual internal audit plans report brought to the Committee by the Head of Internal Audit.</p> <p>The Committee assesses the effectiveness of internal audit arrangements and supporting improvements through the annual report provided to the Committee by the Head of Internal Audit. The Committee recognises that internal audit is a key source of information for them to consider.</p>	5
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<p>The Committee reviews major projects and programmes to ensure that governance and assurance arrangements are in place through the reports received from internal audit and other management reports as requested.</p> <p>The Committee reviews the effectiveness of performance management arrangements through the specific internal audit reviews as appropriate. The Committee also looks at the corporate risks which are often impacted on by major projects.</p>	4
Supporting the development of robust arrangements for ensuring value for money	The Committee ensures that assurances on value for money arrangements is included in the assurances received by the Committee. The Committee considers how performance in value for money is evaluated as part of the AGS.	4
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	The Committee reviews the arrangements in place for countering fraud and corruption through regular review of the relevant policies. The Committee recognises that fraud risks and the effectiveness of the organisations strategy to address those risks are highlighted through the reports received from internal audit as necessary and through the Annual Governance Statement.	4