



Derby City Council

AUDIT & ACCOUNTS COMMITTEE

20 March 2018

Report of the Chair of Audit and Accounts
Committee

ITEM 8

Effectiveness of the Audit & Accounts Committee – Self Assessment

SUMMARY

- 1.1 This report outlines the issues raised by Members who complete the self-assessment questionnaire to ascertain the effectiveness of the Audit and Accounts Committee.
- 1.2 A total of 7 responses were received (70%).
- 1.3 The findings and any required actions are detailed in Appendix 2.

RECOMMENDATIONS

- 2.1 To review the proposed action plan (Appendix 2) and agree the proposed actions to improve effectiveness that are detailed in it.
- 2.2 To ask officers to draft a handbook for Audit and Accounts Committee members which includes essential information to enable them to effectively carry out their role as a member of the Committee.

REASONS FOR RECOMMENDATIONS

- 3.1 The Committee is a key element of the Council's governance framework and it needs to demonstrate a high level of effectiveness in how it carries out its core business.

SUPPORTING INFORMATION

Background

- 4.1 At its meeting on 13 February 2018, Committee agreed that all members of the Committee would complete the self-assessment questionnaire by 28 February 2018 and that a report would be brought to this meeting of the Committee on the outcome of the self-assessment and any actions that are required to address areas identified which require improvement.

- 4.2 The Audit and Accounts 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.
- 4.3. 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 and Accounts Committee's work programme and its training plans.
- 4.4 Committee agreed to use a questionnaire developed internally which drew on existing Audit Committee self-assessment checklists produced by the National Audit Office (NAO) and the Chartered Institute of Public Finance & Accountancy (CIPFA).
- 4.5 Appendix 2 provides a summary of the key issues for improved effectiveness based on the 7 self-assessments received. This shows the areas that members have identified which require future focus and refresh sessions and also where additional training would be beneficial. It also highlights areas where a process review needs to be carried out.
- 4.6 There is one area that the reviewing officer has identified that he feels will demonstrate good practice (Question 7 on the self-assessment questionnaire). Currently there is no formal requirement for the Chair of the Committee to present a report to Full Council on the activities of the Audit and Accounts Committee. The CIPFA practical guidance for local authority audit committees advocates that an Audit Committee "report regularly on their work, and at least annually report an assessment of their performance". This has been included in the issues and actions outlined in Appendix 2.
- 4.7 There were a number of instances where the statement/question in the self-assessment demonstrated a potential lack of awareness of the issue being explored. These are areas that need to be covered in the induction training for Members of the Committee at the start of each Municipal Year. These areas are:

- Assessing the meaningfulness of the Annual Governance Statement
- How the authority assesses its risk
- Annual Accounts - The committee's role in the consideration and/or approval of the annual accounts and the procedures for preparing them
- Reviewing management's letter of representation?
- Internal audit work and how it addresses the Council's significant risks?
- Co-operation between the internal and external auditors
- Obtaining the level of information that the Committee wishes to receive from internal audit
- Gaining awareness of any significant problems external audit faces in completing its work.
- Producing the Committee's annual work programme

4.8 This review of effectiveness will inform the future training programme of the Committee.

4.9 One Member has made the suggestion that an Audit and Accounts Committee Members manual/handbook is produced that contains all relevant information that each member needs to fulfil their role effectively.

OTHER OPTIONS CONSIDERED

5.1 N/A

This report has been approved by the following officers:

Legal officer	N/A
Financial officer	N/A
Human Resources officer	N/A
Estates/Property officer	N/A
Service Director(s)	N/A
Other(s)	N/A

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Background papers:	Completed self-assessment questionnaires

List of appendices:	Appendix 1 – Implications Appendix 2 – Proposed Actions Arising From The Self-Assessment
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IMPLICATIONS

Financial and Value for Money

1.1 None directly arising

Legal

2.1 None directly arising

Personnel

3.1 None directly arising

IT

4.1 None directly arising

Equalities Impact

5.1 None directly arising

Health and Safety

6.1 None directly arising

Environmental Sustainability

7.1 None directly arising

Property and Asset Management

8.1 None directly arising

Risk Management

9.1 None directly arising

Corporate objectives and priorities for change

10.1 An effective Audit and Accounts Committee is a major component of good governance.

Proposed Actions Arising From The Self-Assessment

Ref	Issue	Comment	Proposed Action
	Establishment, Operation & Duties		
	Role and remit		
1	Do the written terms of reference adequately and realistically define the committee's role?	Not been reviewed for 4 years.	Working Group set up to review ToR. Awaiting publication of Guidance from CIPFA
3	Is the committee satisfied that it has been provided with sufficient membership, authority and resources to perform its role effectively and independently?	The Committee would benefit from independent members to add value to the Committee. This is seen as good practice by CIPFA.	Seek approval from Council to advertise for co-opted/independent (non-voting) members of the Committee
7	Does the committee make a formal annual report on its work and performance during the year to full council?	This is good practice. as it raises the status of A & A and its role, and makes all members aware of the scope and importance of the committee's work. The Chair of Committee is supportive of this.	The Chair produces a formal report each year to present at full council which outlines the work of the Audit and Accounts Committee and informs all Council members on the level of robustness of the internal control environment and the management of risks.
	Membership, induction and training		
12	Have all committee members' skills and experiences been assessed and training given for identified gaps?	Training has just been general; not specific to identified gaps. The skills and experience of individual committee members has not been really assessed.	Carry out a skills and knowledge assessment for each of the Committee Members.
14	Are members sufficiently independent of the other key committees of the council?	Members raised the issue of their membership of other Committee's e.g Scrutiny. It was also highlighted that the Chair of Committee is from the	To carry out a risk assessment of the issue.

		controlling group and therefore could be influenced by the Cabinet.	
Ref	Issue	Comment	Proposed Action
	Meetings		
16	Do the terms of reference set out the frequency of meetings?	Frequency of meetings is not mentioned	See comments on Questionnaire issue 1 above
19	Are meetings free and open without political influences being displayed?	Some Members felt that the Committee meetings were still being used to make political statements	The Chair reminds each Member that the Committee should be apolitical and shuts down any such activity.
	Internal control, Risk & Governance		
25	Does the committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	Members commented that there was insufficient evidence being provided to draw a conclusion	Training is given to Committee Members on the areas they need to explore to gain assurance on the operation of the internal control system.
26	Has the committee considered how it integrates with other committees that may have responsibility for risk management?	Members were concerned that there was no integration evident.	To review the role other Committees have in respect of risk management and how it can work with them.
28	Is the committee made aware of the role of risk management in the preparation of the internal audit plan?	Members expressed a view that this needs to be explained more fully.	To include a more in depth session on the role of risk and internal audit in the Committee training programme.
	Financial Reporting & Regulatory Matters		
33	Does the committee consider specifically: a) the suitability of accounting policies and treatments b) major judgements made c) large write-offs d) changes in accounting	There was a division in whether or not Members felt these were being considered adequately at meetings. This may well be down to the individual Member's understanding of these areas.	To cover the key accounting concepts/treatments etc in briefings for the Committee prior to the statement of accounts being presented.

	<p>treatment</p> <p>e) the reasonableness of accounting estimates</p> <p>f) the narrative aspects of reporting?</p>		
Ref	Issue	Comment	Proposed Action
38	Does the committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Some members felt there was no formal mechanism in place. It was reliant on Individual Officers or External Audit to provide information. They also questioned whether the current process was good enough.	To introduce a formal, properly co-ordinated approach to dissemination of information to the A & A Committee through a designated officer.
	Internal Audit		
39	<p>Is the committee satisfied that:</p> <ul style="list-style-type: none"> internal audit received all the co-operation they desired; there was no attempt to restrict the scope of internal audit work; there were no significant disagreements with management; there is a good working relationship between internal audit and management; internal audit are not being subjected to undue pressure. 	<p>Overall Members felt that there are concerns particularly around the co-operation that internal audit receives. Some departments are very slow to implement recommendations by internal audit</p> <p>Members also noted the problems that internal audit had faced with the restrictions that the former interim section 151 Officer had been enforcing e.g. s24 recommendations.</p>	The Committee needs to get a message out to Senior management on the level of co-operation that it expects internal audit to receive.
43	Does the committee hold periodic private discussions with the Head of Internal Audit?	Members commented that the only discussions are held with the Chair and	Introduce a session at the start of each meeting where the Committee meets only with the

		Vice-Chair.	Internal Auditor and the External Auditor. This gives both the Committee and the Auditors opportunity to raise issues without Council Officers being present. This is a practice that is adopted by a number of audit committees.
Ref	Issue	Comment	Proposed Action
45	Does the committee review the adequacy of internal audit staffing and other resources?	Members felt that this is not an area that they had chance to comment on.	Reintroduce the report where the s151 Officer provides an opinion to committee on the effective of the internal audit function.
	External Audit		
50	Is the audit committee aware of how the external audit plan is put together?	Some Members felt that they were just informed that this is what work External Audit would be doing and could not see the links between	Further training from External Audit on the work it does and how it prepares the plan.
53	Are reports on the work of other inspection agencies presented to the committee?	Members of the Committee were of the opinion that they see few, if any reports from other inspection bodies.	The s151 Officer ensures that all reports from other inspection agencies that include references to areas of responsibility of the Committee are included on future agendas.
56	Is the audit committee aware of any significant disagreements with management?	<p>50% of the members responding were not aware of any significant disagreements.</p> <p>Others commented that as Management had accepted in full EY's findings and addressed them in a plan, which the Committee was overseeing, then there was not any disagreements.</p>	Members need to be asking Officers the question at Committee meetings.

57	Is the audit committee satisfied that the auditors have no concerns about management's commitment to a strong control environment or operating style?	Members felt that External Audit have demonstrated that they do have a number of areas of concern on the internal control environment , which they have highlighted in their adverse value for money conclusion and the s24 Recommendation.	Committee need to hold to account managers that are not committed to a robust internal control environment by asking them to attend Committee meetings to explain their reasoning.
Ref	Issue	Comment	Proposed Action
	Administration		
	Actions arising		
65	Do action points indicate who is to perform what and by when?	Members made reference to the minutes recording all recommendations and resolutions without going into detail on named officers being involved and what they'll do.	Committee need to agree at each meeting any timescales associated with resolutions /recommendations and who the responsible officer is that the action falls upon.