

Report sponsor: Chair of Audit and Governance Committee
Report author: Head of Internal Audit

Audit and Governance Committee – Self-Assessment of Good Practice 2023/24

Purpose

- 1.1 This report outlines the areas for improvement raised by members of the Committee who completed the Chartered Institute of Public Finance and Accountancy's high-level good practice for Audit Committees self-assessment questionnaire.

Recommendations

- 2.1 To review the areas identified for improvement and decide how the Committee wishes to proceed with addressing these.
- 2.2 Where improvements are deemed necessary, the Committee needs to decide how it wishes to formally record the required actions e.g. action plan.

Reasons

- 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.
- 3.2 A regular self-assessment can be used to support the planning of the Audit and Governance Committee work programme and training plans. It must also inform the annual report of the Committee.

Supporting information

- 4.1 An audit committee should be able to provide an overall view on the adequacy of assurance arrangements and the outcome of assurances received. If the committee is not effective councillors, leaders and senior officers cannot place reliance on its work.
- 4.2 This Committee has performed a self-assessment exercise on its effectiveness in meeting the Chartered Institute of Public Finance & Accountancy's (CIPFA) good practice guidance for Audit Committees on an annual basis since March 2017. In line with the practice in previous years, each member of the Committee was again asked to complete the CIPFA interactive self-assessment questionnaire to cover the 2023/24 municipal year. The deadline for questionnaires to be returned to the Head of Internal Audit was Monday 26th February 2024. A total of eight self-assessment questionnaires have been returned out of a possible 12. The results of this self-assessment should be included in the Committee's annual report to Full Council.

- 4.3 The self-assessment questionnaire is divided into four sections each containing a series of questions on compliance with the good practice principles set out in CIPFA's position statement on Audit Committees in Local Government. The four sections are:
- Audit committee purpose and governance
 - Functions of the committee
 - Membership and support
 - Effectiveness of the committee

The self-assessment questionnaire seeks a response to each question based on the level of compliance – Fully complies; Partially complies; Does not comply. The questionnaire also attributes a level of improvement to each category with a weighting score. Where it is considered that there is only partial compliance, three options are available to allow distinction to be drawn between aspects that require significant improvement, moderate improvement and those only requiring minor changes.

- 4.4 An analysis of the responses received is given below. Where more than one member of the Committee has identified an area that they believe needs moderate, significant or major improvement, then these are highlighted in the analysis below.

Audit Committee Purpose and Governance

- 4.5 The majority of responses in this section were that the Committee fully complies with the areas covered by the good practice questions or that only minor improvements were needed. However, 25% of the members of the Committee that responded indicated that a moderate improvement was needed in respect of "Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the Committee?"

Functions of the Committee

- 4.6 Again, the majority of responses in this section were that the Committee fully complies with the areas covered by the good practice questions or that only minor improvements were needed. Concern was expressed in 50% of the responses that the Committee does not comply with the good practice guidelines in respect of "Has the committee met privately with the external auditors and head of internal audit in the last year?".
- 4.7 This issue has been a "point in question" for several years. It was an improvement action following the 2018 Self-Assessment, however legal advice to the Committee at that time was that, although a technical nuance, the product of such private meetings cannot constitute a 'decision' of the committee as its deliberations would not be compliant with the Local Government Act 1972. They are not binding on the committee, officers or the council. Such meetings are more akin to being workshops. If a binding decision of the committee is necessary arising from deliberations at such a meeting, then it needs to have a formal report tabled at the next Audit and Governance meeting. This allows for the 1972 Act's advance publicity rules to be applied, for officers to be present to speak to reports and for the press and public, subject to the exclusion rules in schedule 12A of the Act, to be in attendance. The then Chair of Committee took the decision to have separate meetings with the auditors and the Vice-Chair of Committee rather than it being with the full Committee.

- 4.8 If Committee wish to meet privately with the auditors, then the purpose of such meetings needs to be clearly defined and if there are any outcomes from the meetings that require a decision being taken by the Committee, they must be progressed in a manner which is compliant with the Local Government Act 1972.

Membership and support

- 4.9 Members of the Committee that responded identified five areas (out of seven) that in their opinion would benefit from at least moderate improvement. These are:
- Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled? (raised by 25% of respondees)
 - Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years? (50%)
 - Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance? (75%)
 - Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance? (63%)
 - Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO? (25%)
- 4.10 CIPFA state that “The composition of the committee will be one of the key factors in achieving a good audit committee.” However, it does acknowledge that there are a number of factors within local government that influence the composition, the key ones being political balance (as outlined in Section 15 of the Local Government and Housing Act 1989) and the selection of the committee chair (local authorities can determine their own approach). Historically, at Derby City Council, the membership of the Audit and Governance Committee has changed each municipal year due to a combination of elections being held three in every four years as well the annual selection process for Committee membership. This has meant that the benefits of having a stable Committee membership have not always been realised. This constant changing of membership has also seen the Committee Chair and Vice-Chair roles change on a too regular basis. Frequent turnover of membership impacts on the Committee’s ability to build up expertise and experience. It is hoped that the move to four yearly elections will enable more consistency going forward. The addition of co-opted/independent members of the Committee from 2018/19 has benefited the Committee greatly through additional knowledge and expertise of the Committee’s key functions.
- 4.11 A formal knowledge and skills needs assessment has not been undertaken for the current Committee and neither has regular training been delivered to the Committee, due in the main to the demands on the key officers required to deliver that training. Both the knowledge and skills needs assessment and delivery of training linked to the key functions/roles of the Audit and Governance Committee are a key priority for the 2024/25 Municipal Year. The options for the delivery of training need to be explored. In the past, members of the Committee have attended external training as well as having training delivered by Derby City officers. However, the cost of external training can be prohibitive.

Effectiveness of the Committee

- 4.12 This section contained ten questions. Members of the Committee who responded highlighted eight areas that in their opinion could benefit from at least moderate improvement. These areas are:
- Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work? (50%)
 - Are meetings effective with a good level of discussion and engagement from all the members? (50%)
 - Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers? (63%)
 - Does the committee make recommendations for the improvement of governance, risk and control arrangements? (50%)
 - Do audit committee recommendations have traction with those in leadership roles? (50%)
 - Has the committee evaluated whether and how it is adding value to the organisation? (25%)
 - Does the committee have an action plan to improve any areas of weakness? (63%)
 - Has this assessment been undertaken collaboratively with the audit committee members? (25%)
- 4.13 The effectiveness of an audit committee is dependent on whether its members feel confident in their knowledge of particular areas and also whether they have gained an overall understanding of their remit. It also requires senior officers and other elected Members not directly involved with the committee to have understanding of its role/work and to be sighted on its output. The Council's Director of Finance & s151 Officer and the Head of Internal Audit are the only two senior officers who are in regular attendance. Other officers attend when they have a report to present or are requested to attend by the Committee. Recommendations and required actions made by the Audit and Governance Committee are tracked through a standing item on its meeting agenda (Outstanding Resolutions Report).
- 4.14 The Committee does not currently have an action plan in place to address any areas of perceived weakness. Members of the Committee will need to decide if this is the preferred way forward for actioning improvements that have been highlighted by the self-assessment.
- 4.15 The Council's external auditors should consider the effectiveness of the Audit and Governance Committee when evaluating the Council's governance arrangements. This is achieved through observation by attending Committee meetings. If they have any significant concerns, they will make recommendations for improvement. Any such recommendations should also be included in the Committee's annual report to Full Council.

Overall Summary of Self-Assessment Responses

- 4.16 The Audit and Governance Committee experienced a significant change in membership in May 2023. Only one elected member and one co-opted member remained on the Committee from the previous municipal year. Three new co-opted members joined the Committee in September 2023. These changes have impacted on the responses to the self-assessment. The new co-opted members didn't feel that they had the knowledge of the Committee and how it worked after only a few months to be able to provide a full response.
- 4.17 The overall scores generated from those self-assessments that were fully completed were:

151
145
169
130
144
138

The maximum possible score was 200 (i.e. fully complies on every area of good practice). The average score from the six fully completed self-assessment questionnaires was 146.

The percentage break down from all eight of the responses received over the CIPFA levels of compliance was as follows:

Level of Compliance	%
Fully Complies – No further improvement	53.9
Partially complies – Minor improvements	24.5
Partially complies – Moderate improvements	14.2
Partially complies – Significant improvements	3.7
Does not Comply - Major improvements	3.7

21.6% of the responses to individual questions highlighted that members of the Committee believed that there is need for moderate, significant, or major improvement to be made before the Committee could be assessed as meeting CIPFA's good practice guidance.

- 4.18 Committee now needs to decide how it wishes to address the areas where improvements have been identified as being required. Previous Committees have chosen to have an action plan to formalise the improvement process going forward.

Public/stakeholder engagement

- 5.1 None

Other options

6.1 None

Financial and value for money issues

7.1 None arising directly from this report.

Legal implications

8.1 None arising directly from this report.

Climate implications

9.1 None arising directly from this report.

Socio-Economic implications

10.1 None arising directly from this report.

Other significant implications

11.1 None

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal		
Finance		
Service Director(s)		
Report sponsor		
Other(s)		

Background papers:	None
List of appendices:	Appendix 1 – CIPFA's Audit Committee Self-Assessment Questionnaire