



Derby City Council

AUDIT AND ACCOUNTS COMMITTEE
7 November 2018

ITEM 8

Report of the Chair of the Audit and Accounts
Committee

**Update on the actions arising from the Audit and Accounts
Committee's Self Assessment exercise**

SUMMARY

- 1.1 This report outlines the progress made through the action plan on the issues raised by those Members who complete the self-assessment questionnaire to ascertain the effectiveness of the Audit and Accounts Committee.

RECOMMENDATIONS

- 2.1 To note the progress on the action plan (Appendix 2).

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 20 March 2018, Committee reviewed the findings from a self-assessment questionnaire on the effectiveness of the Audit and Accounts Committee.
- 4.2 There were a number of instances where the statement/question in the self-assessment questionnaire highlighted that Members felt there was a lack of awareness or knowledge of a particular area of the Committee's roles/responsibilities.
- 4.3. The Committee agreed an action plan that was presented at the meeting to improve its effectiveness. The majority of actions are still on-going. Some will take time to properly embed and therefore although the action has been addressed it cannot be classified as closed. Progress on implementation of all the agreed actions is attached in Appendix 2.

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 – Update on the Actions Arising From The Self-Assessment

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.

Appendix 2

Proposed Actions Arising From The Self-Assessment

Ref	Issue	Comment	Proposed Action	Progress Made
	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	The CIPFA guidance was published in April/May 2018. The Working Group met on 19 September to review the terms of reference and a report is being considered at the Audit and Accounts Committee meeting on 7 November 2018.
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	Action completed - The Committee now has 2 independent members.
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.	The Chair of Committee will be taking an annual report on the work of the Committee to full Council in March 2019. The requirement is now included in the revised Committee terms of reference.

Ref	Issue	Comment	Proposed Action	Progress Made
	Membership, induction and training			
11	Are new Committee members provided with an appropriate induction	Although this was not flagged as a weakness in the self-assessment, one response suggested that a manual/handbook was produced that contains all the relevant information that members of the Committee need to perform their role. This addition was agreed by the Committee at its meeting on 20 March 2018 that	Officers produce a handbook for all members of the Audit and Accounts Committee which provides all the information that is required for Committee members to fulfil their role effectively.	The handbook is in preparation. Once completed it will be brought to Committee for review.
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 at the beginning of each municipal year.	<p>A skills and knowledge assessment form was sent to all Committee members on 6 September. The Chair requested that a workshop be held in October to review these forms and identify key areas for future training.</p> <p>However, it was agreed at the Committee meeting on 19 September that Members preferred that regular training sessions be held prior to Committee meetings which focused on the basic skills required for Members of the Committee and in particular how Internal Audit carries out an audit.</p>

Ref	Issue	Comment	Proposed Action	Progress Made
14	Are members sufficiently independent of the other key committees of the council?	<p>Members raised the issue of their membership of other Committee's e.g Scrutiny.</p> <p>It was also highlighted that the Chair of Committee is from the controlling group and therefore could be influenced by the Cabinet.</p>	To carry out a risk assessment of the issue.	<p>Each Group puts forward its nominations for Audit and Accounts Committee. Democratic Services will review these and challenge if it is felt that there is an issue that could affect the independence of the Member i.e. they are a cabinet member.</p> <p>The risk of having executive members on the committee is that it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector.</p> <p>Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair.</p> <p>There is no risk in having Scrutiny Committee members on the Audit and Accounts Committee.</p>
	Meetings			
16	Do the terms of reference set	Frequency of meetings is not	See comments on Questionnaire	The revised terms of reference sets out the minimum number of meetings per

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	out the frequency of meetings?	mentioned	issue 1 above	municipal year.
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.	The need for the Committee to be apolitical is made clear to all members within the Committee's induction process. The Chair is aware of the need for him to prevent members of the committee making political statements in meetings and will take the appropriate steps to stop it happening.
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.	This is being included in the training and development programme for the Committee.
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.	<p>A review of the responsibilities of other Committees has found none that specifically link with risk management. It is not specifically mentioned within the portfolio of the Cabinet Member for Governance and Licensing, although it will fall within this portfolio. It will also be relevant to the remit of the Corporate Services Scrutiny Review Board.</p> <p>The Chair of Committee will liaise with the Cabinet Member for Governance and Licensing and with the Chair of Corporate</p>

Ref	Issue	Comment	Proposed Action	Progress Made
				Services Scrutiny Review Board on risk management issues.
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.	This was briefly covered in the induction workshop held on 15 June. However, a specific session on internal audit is being planned for March 2019.
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 treatment e) the reasonableness of accounting estimates f) the narrative aspects of reporting?	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.	The planned training and development of Committee members includes sessions around the financial accounts.
38	Does the committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving	Some members felt there was no formal mechanism in place. It was reliant on Individual Officers or External Audit to	To introduce a formal, properly coordinated approach to dissemination of information to the A & A Committee through a	Information is provided to members of the Committee by the Head of Internal Audit.

Ref	Issue	Comment	Proposed Action	Progress Made
	circulars and through training?	provide information. They also questioned whether the current process was good enough.	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>	<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.</p>	<p>The Chair of Committee is taking a lead role in this with the s151 Officer.</p> <p>Where the Chair and Vice-Chair believe there are issues with the relationship between management and internal audit, they will meet with both parties to seek to bring about a solution.</p> <p>In respect of the concerns that Members raised in respect of the slowness to implementation of recommendations, a new process has been introduced which now makes individual Chief Officers accountable to the Committee if recommendations are not being implemented in a timely manner.</p>

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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 Vice-Chair.	Introduce a session at the start of each meeting where the Committee meets only with the 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.	Action Completed - The Chair and Vice-Chair have regular (4 weekly) meetings with the Head of Internal Audit.
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 effectiveness of the internal audit function.	The Strategic Director of Corporate Resources (s151 Officer) will provide a report to the March meeting of the Committee on the effectiveness of internal audit.
	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.	The planned training and development of Committee members will include a session from the External Auditor on how it plans its work
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	This has been added to the draft terms of reference.

Ref	Issue	Comment	Proposed Action	Progress Made
			agendas.	
56	Is the audit committee aware of any significant disagreements with management?	50% of the members responding were not aware of any significant disagreements. 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.	Members need to be asking Officers the question at Committee meetings.	The opportunity for the Committee to meet in private with the External Auditor is included in the revised terms of reference.
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.	It is in the gift of the Committee to request Officers to attend Committee meetings to answer questions around any departures from/lack of adherence to a sound internal control framework. The Chair and Vice – Chair liaise with the Head of Internal Audit at their regular meetings on any issues regarding the control environment.
	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	Committee need to agree at each meeting any timescales associated with resolutions /recommendations and who the responsible officer is	Action Completed - Timescales for resolutions and recommendations and who the responsible officer is are recorded at each meeting. The Democratic Services

Ref	Issue	Comment	Proposed Action	Progress Made
		detail on named officers being involved and what they'll do.	that the action falls upon.	Officer maintains a log of all the actions, responsible officer and target date which he follows up with the responsible officers.