

COMMITTEE	AUDIT COMMITTEE
DATE	23 JUNE 2016
TITLE	SELF-ASSESSMENT OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE
PURPOSE OF REPORT	TO REPORT BACK FROM THE WORKSHOP HELD ON 31 MAY 2016
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ACTION	TO CONSIDER THE CONTENTS AND AGREE TO RECEIVE REGULAR UPDATES IN ORDER TO FURTHER IMPROVE ITS EFFECTIVENESS

1. INTRODUCTION

- 1.1 At its last meeting, on 5 May 2016, the Audit Committee resolved to organise a workshop during May/June 2016 in order to conduct a self assessment of its effectiveness.
- 1.2 The purpose of the Workshop would be to consider if the Committee operates in the most effective way, and where there is scope to do more.
- 1.3 The workshop was held at the Council's offices at Galw Gwynedd, Penrhyndeudraeth, on 31 May. Seven members of the Committee attended, including the Chair and Vice Chair. The Head of Finance, the Senior Manager Revenues & Risk and the Audit Manager attended to facilitate.

2. THE CONTENTS OF THE DAY

- 2.1 As a first step, a presentation was given on the evolution of the Committee since its establishment in 1999, and particular attention was given to the statutory requirements for an Audit Committee that are in place in Wales since 2012 pursuant to the Local Government (Wales) Measure 2011.
- 2.2 Specific reference was made to the CIPFA publication *Audit Committee – Practical Guidance for Local Authorities and Police*. In accordance with Statutory Guidance for the 2011 Measure, it is expected that the audit committees of local authorities in Wales pay attention to this publication. The Statutory Guidance refers to the version of the CIPFA guidance that was available at that time, namely the 2005 version, but an updated version has now been published, in 2013.
- 2.3 The CIPFA guidance was used to consider:
 - If the Committee is undertaking the things that it should, in accordance with the statutory requirements and best practice
 - How effectively it is doing these things.

3. SELF-ASSESSMENT OF GOOD PRACTICE

- 3.1 Appendix D of the CIPFA guidance, Self-Assessment of Good Practice, was used to consider if the Committee delivers what is expected from it in terms of statutory requirements and the best practice of professional bodies. The Senior Manager Revenues and Risk and the Audit Manager had already addressed these questions in the run-up to the workshop, and the results were presented to the workshop for discussion.
- 3.2 The results of the Self-assessment of Good Practice can be found on the following pages. After identifying any gaps, an action plan to improve compliance was drawn up.

SELF-ASSESSMENT OF GOOD PRACTICE

	Good practice questions	Yes	Partly	No	Evidence/Comments
Audit committee purpose and governance					
1	Does the authority have a dedicated audit committee?	✓			Part 9.2.1 of Gwynedd Council's Constitution states <i>"The Council will appoint an Audit Committee to discharge the functions described in Section 13 of this constitution and in accordance with sections 81-87 of The Measure."</i>
2	Does the audit committee report directly to full council? (Applicable to local government only.)		✓		<p>The Audit Committee reports directly to the Full Council, and is a full committee (i.e. not a sub-committee).</p> <p>The Council's Scheme of Delegation (Part 13 of the Council's Constitution) specifically delegates the duty to approve the authority's statement of its accounts, income, expenditure and balance sheet or its record of its proceeds and payments (as it happens) to the Audit Committee.</p> <p>However, the Audit Committee has not presented an Annual Report to the full Council, despite this requirement being detailed in the Audit Committee's Terms of Reference.</p>
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			Paragraph 1.1 of the Audit Committee's Terms of Reference.
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			No evidence to suggest to the contrary.

	Good practice questions	Yes	Partly	No	Evidence/Comments
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			The Governance Arrangements Assessment Group presents regular reports to the Audit Committee. The Annual Governance Statement is presented to the Audit Committee to be challenged and approved.
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			✓	No such formal arrangements have been put in place.
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	✓			TOR – Section 2.2
	• assurance framework	✓			TOR – Section 2.2
	• internal audit	✓			TOR – para. 2.2.5 – 2.2.9 and Section 2.3
	• external audit	✓			TOR – Section 2.3
	• financial reporting	✓			TOR – Sections 2.1 and 2.4
	• risk management	✓			TOR – Section 2.2
	• value for money or best value			✓	
	• counter-fraud and corruption.		✓		TOR – para.2.2.10 – 2.2.13
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?			✓	A formal annual evaluation is not undertaken.

	Good practice questions	Yes	Partly	No	Evidence/Comments
9	<p>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?</p> <p>These four areas are:</p> <ul style="list-style-type: none"> • Considering governance, risk or control matters at the request of other committees or statutory officers. • Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values. • Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice. • Providing oversight of other public reports, such as the annual report. 		✓		<p>The Audit Committee does undertake some of these areas, e.g. reviewing and monitoring treasury management arrangements.</p> <p>However, the Audit Committee has not formally considered whether it should undertake the "wider areas".</p> <p>The Audit Committee does not currently provide oversight of the Annual Report.</p>
10	<p>Where coverage of core areas has been found to be limited, are plans in place to address this?</p>		✓		<p>The core areas where coverage is limited are value for money / best value and proactive fraud work.</p> <p>A report on work undertaken on the National Fraud Initiative will be presented to the Committee in due course.</p>
11	<p>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?</p>	✓			

	Good practice questions	Yes	Partly	No	Evidence/Comments
Membership and support					
12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>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 • where independent members are used, that they have been appointed using an appropriate process. 	✓			<p>Gwynedd Council's Constitution – Section 9.2</p> <p>The Audit Committee comprises of 18 members and one lay member. The Control Improvement Working Group has been established to deal with areas where the full committee would be unwieldy.</p> <p>Appropriate procedures were followed, including adverts in the press.</p>
13	Does the chair of the committee have appropriate knowledge and skills?	✓			
14	Are arrangements in place to support the committee with briefings and training?		✓		Although incorporated in the TOR – para. 3.1.2 – induction training for new members has not been provided, although any new areas are explained to the Committee in meetings. Training has been provided on Treasury Management issues.
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓		A members self-assessment of knowledge and skills has not been undertaken.
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			There are very good working relationships with these key stakeholders
17	Is adequate secretariat and administrative support to the committee provided?	✓			Yes, in accordance with the Council's arrangements

	Good practice questions	Yes	Partly	No	Evidence/Comments
Effectiveness of the committee					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			✓	This area will be addressed in the Workshop on 31 May 2016.
19	Has the committee evaluated whether and how it is adding value to the organisation?			✓	
20	Does the committee have an action plan to improve any areas of weakness?			✓	

Matters requiring attention

3.3 In considering the results of the Self-assessment of Good Practice, members' views that the following gaps need attention were noted:

Question	Matter requiring attention	Ways of Responding
2	The Committee does not formally submit an annual report to the full Council	The Committee will follow the example of other committees who are already doing this, and learn lessons from them, in order to submit an annual report to the Full Council at the appropriate time of year.
6	Members of the Committee do not currently reflect on their performance.	Committee members will assess their own performance individually, and the Committee as a body, through various means, including Webcasts. This may involve the use of external specialist, if it is felt that this is appropriate and would add value.
7	The Committee's understanding of value for money work	Learning through workshops, seminars etc. about examples from other authorities.
7, 10	To strengthen the proactive consideration given to the issues of prevention of fraud, corruption and bribery.	Developing a programme to present regular reports to the Committee.
9	The Committee has not formally considered if it should undertake the additional areas outlined in the guidelines. Instead, it has done so in an "ad hoc" manner.	Submitting a report to a meeting in 2016/17 giving particular consideration to this. This will include examining what other Councils do.
14	Need to strengthen training for the Committee members. It was noted that training was mandatory for some committees are prepared (e.g. Planning Committee), members felt that the same situation exists for the Audit Committee.	Finance officers will draw up a proposed training programme for members of the Audit Committee, which will include discussions with relevant units of the Corporate Support Department. This training programme will include, as a minimum: <ul style="list-style-type: none"> • Training Gap assessments. • The responsibilities of the Audit Committee, and how this compares with other committees. • Induction sessions for new members on the roles of internal audit and external audit.

4. EVALUATING THE EFFECTIVENESS OF THE AUDIT COMMITTEE

- 4.1 "Appendix E" of the CIFPA guidelines was used to consider if the Audit Committee is discharging its duties in the most effective manner possible. In order to do this the method of scoring as recommended to the Committee at its meeting on 5 May was used, namely to work through the questions in Appendix E and give a score from 1 to 5 based on the following:

Assessment 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.
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- 4.2 There was an opportunity at the workshop for the officers to challenge the proposed scores that were suggested – this was an effective way of stimulating debate and ensuring that appropriate issues had been identified.
- 4.3 The self-assessment by the members of the Audit Committee's effectiveness has been included on the following pages.

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
Promoting the principles of good governance and their application to decision making.	<p>Providing robust review of the AGS and the assurances underpinning it.</p> <p>Working with key members/governors to improve their understanding of the AGS and their contribution to it.</p> <p>Supporting reviews/audits of governance arrangements.</p> <p>Participating in self-assessments of governance arrangements.</p> <p>Working with partner audit committees to review governance arrangements in partnerships.</p>	<p>In general this is good, but there may be scope for greater participation in the self-assessment of governance arrangements.</p> <p>The Committee does not give detailed consideration to partnerships at present.</p>	4
Contributing to the development of an effective control environment.	<p>Monitoring the implementation of recommendations from auditors.</p> <p>Encouraging ownership of the internal control framework by appropriate managers.</p> <p>Raising significant concerns over controls with appropriate senior managers.</p>	<p>There is clear evidence available that the Committee fulfils this role</p>	5
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<p>Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking.</p> <p>Monitoring improvements.</p> <p>Holding risk owners to account for major/strategic risks</p>	<p>The Committee does not receive the corporate risk register at the moment. There is scope to strengthen the Committee's oversight of the authority's risk management arrangements.</p>	3
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<p>Specifying its assurance needs, identifying gaps or overlaps in assurance.</p> <p>Seeking to streamline assurance gathering and reporting.</p> <p>Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.</p>	<p>Is generally good, but the Committee does not receive full detail by all joint committees at present</p>	4
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<p>Reviewing the audit charter and functional reporting arrangements.</p> <p>Assessing the effectiveness of internal audit arrangements and supporting improvements</p>	<p>This has been very effective for several years, and the Controls Improvement Working Group is supportive.</p>	5

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
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. Reviewing the effectiveness of performance management arrangements.	Is generally good, but a gap was noted in the sense that the Committee does not review the project plans and risk registers of large projects as a matter of course	4
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.	Is generally good, but consideration of value for money could be improved	4
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud (Red Book 2)</i> . 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.	The Committee has not reviewed the arrangements against the recommended standards, and there is scope to strengthen here.	3
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 language. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.	The workshop felt that the Committee achieves what it can in this area and could not do more	5

4.4 This gives an average score of 4.1. This will be reported back to the Governance Arrangements Assessment Group, to be considered by the Group in the context of the Self-Assessment of the Council's Governance Arrangements.

Matters requiring attention

4.5 The following are further actions arising from the Self assessment of Effectiveness, and are in addition to those set out in part 3.3 of this report:

Matter requiring attention	Ways of Responding
The Committee does not give detailed consideration to partnerships at present	Research, possibly by a task group, to the partnerships in which the Council is involved.
Details of the Corporate Risk Register	The Committee to receive regular reports detailing the content of the Corporate Risk Register.
Major projects	The Committee to consider accepting project plans and risk registers of major projects where appropriate. Further research will be needed to establish what is needed, and when.
Anti-fraud arrangements	Finance officers to complete an assessment against the appropriate guidelines, and report on them to the Committee

4.6 In addition to the above, the following points were noted during the workshop:

- That representatives of the Council's new financial auditors, Deloitte, had attended the meeting of the Audit Committee on 5 May, and their first impressions were very positive.
- Work continues to be necessary to be clear about the boundary between the role of the Audit Committee and the role of scrutiny committees.
- There is scope to strengthen collaboration between the committees, e.g. when looking at large, strategic projects such as Pont Briwet.
- Concern was expressed about the number of members who attend some meetings of the Committee and had attended the workshop.
- There is scope for the Committee to do more in terms of challenging the performance of the external auditors as well as Internal Audit.

5. RECOMMENDATION

5.1 The Committee is requested to:

- **Receive confirmation by those members who were at the workshop on 31 May that this report is a fair reflection of the discussion held there.**
- **Accept the contents of this report as the basis for an action plan for the further development of the Committee, and to resolve to accept an update to every meeting on progress against these actions.**