

AUDIT COMMITTEE	AGENDA ITEM No. 10
15 JULY 2019	PUBLIC REPORT

Report of:	Peter Carpenter – Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Finance	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

REVIEW OF EFFECTIVENESS OF THE AUDIT COMMITTEE

RECOMMENDATIONS	
FROM: Steve Crabtree, Chief Internal Auditor	Deadline date: N/A
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. To consider the draft response to the CIPFA Toolkit checklist for Audit Committees, which records that the Committee meets all of the good practice statements; 2. To consider the draft responses to the CIPFA Knowledge and Skills Framework for local authority audit committees; and 3. To agree any actions which the Committee considers appropriate to amend or enhance the Committee's arrangements in light of the completed Knowledge and Skills Framework assessment and the CIPFA Audit Committee Toolkit checklist. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the role and effectiveness of the Audit Committee.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide Members with an update on progress in developing the audit plan

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.17

“To consider the Councils arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice”.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
---------------------------------------------	-----------	----------------------------------	-----

4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 The Accounts and Audit Regulations 2015 state that each local authority shall at least annually, “conduct a review of the effectiveness of its system of internal audit”. The regulations go on to say that the findings of this review should be considered by a committee or members of the relevant body as a whole, as part of the wider consideration of the organisation’s system of internal control. This requirement is reiterated in the Internal Audit Charter which was last approved by the Committee in March 2019. The requirements for an effective internal audit function are set out in Public Sector Internal Audit Standards (last updated in April 2017).

4.1.2 Members previously considered a report in March 2018 which reviewed the Committee’s effectiveness as the Council’s Audit Committee, using the CIPFA “Toolkit for Local Authority Audit Committees”. An update of this assessment is provided within the report. The report also contains an assessment against an existing good practice model in respect of the knowledge and skills expected of an effective audit committee to enable it to effectively discharge its duties.

4.2 CIPFA GUIDANCE ON AUDIT COMMITTEES

4.2.1 CIPFA published “Audit Committees - Practical Guidance for Local Authorities and Police”. The document sets out CIPFA’s guidance on the function and operation of audit committees, giving their view of best practice, and also includes their “Position Statement: Audit Committees in Local Authorities and Police Authorities”. The Position Statement (**Appendix A**) emphasise the importance of audit committees and their role as a key component of governance.

4.2.2 The Guidance states that the purpose of an audit committee is to provide to 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.

4.2.3 The Guidance sets out the CIPFA position statement, then expands on:

- The purpose of Audit Committees;
- The core functions of an Audit Committee;
- Possible wider functions of an Audit Committee;
- Independence and accountability; and
- Membership and effectiveness (including potential causes of difficulty and potential improvement options)

4.2.4 The Guidance specifies the key regulations which can be addressed by the terms of reference of an Audit Committee and provides some suggested Terms of Reference. All of the good practice set out in the CIPFA Position Statement is incorporated within PCC’s Audit Committee Terms of Reference.

4.2.5 CIPFA also produced a toolkit for local authority audit committees, which supports the objectives set out in the Guidance. The toolkit set out the following areas for consideration:

- Establishment, operation and duties of the committee;
- Role and remit;
- Membership, induction and training;

- Meetings;
- Internal control;
- Financial reporting and regulatory matters;
- Internal Audit;
- External Audit;
- Administration;
- Agenda management;
- Papers; and
- Actions arising

- 4.2.6 The toolkit contains an audit committee self-assessment checklist which has been reproduced in **Appendix B**. Officers have completed the checklist, which concludes that the Audit Committee demonstrates that it is meeting good practice. *Members may wish to consider the draft responses given to ensure they accurately reflect their views and agree appropriate actions for those areas they consider should be amended / enhanced.*
- 4.2.7 To further assist Audit Committees, CIPFA also produced a Knowledge and Skills framework for Audit Committee members. A draft assessment has been compiled by officers (**Appendix C**). Core skills are identified in **Appendix D**.
- 4.2.8 Further information and best practice was provided by the Public Sector Audit Appointments Ltd at a Local Audit Quality Forum in June 2019 which was attended by the Audit Committee Chair and the Chief Internal Auditor.
- 4.2.9 From the evidence available, the core functions of the Audit Committee remain sound and meet requirements. With a regular turnover of membership, training needs remain at the forefront and appropriate action plans will be developed to sit alongside the work programme.

5. CONSULTATION

- 5.1 The review has been circulated to Acting Corporate Director of Resources for consideration.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 It can be demonstrated that Audit Committee fulfils its terms of reference and meets best practice governance guidelines within the public sector.

7. REASON FOR THE RECOMMENDATION

- 7.1 To provide Members with an overview of the requirements and best practice for audit committees and allow for challenge.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 None

9. IMPLICATIONS

Financial Implications

- 9.1 The report does not give rise to any additional capital or revenue financial implications.

Legal Implications

- 9.2 Regulation 3 of the Accounts and Audit Regulations 2015 sets out the Council's responsibility for ensuring that it has a sound system of internal control which:
- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - Ensures that the financial and operational management of the authority is effective; and
 - Includes effective arrangements for the management of risk.

Regulation 5 requires the Council to ensure it undertakes an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

Regulation 6 requires the Council to conduct an annual review of the effectiveness of the system of internal control required by Regulation 3; and to prepare an annual governance statement. The findings of the review of effectiveness must be considered as part of the consideration of the system of internal control referred to in paragraph 4.2 above. The Council has delegated the discharge of this function to the Audit Committee.

Equalities Implications

- 9.3 Not applicable.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 None.

11. APPENDICES

A: Key Attributes
B: Compliance Self-Assessment
C: Knowledge and Skills Framework
D: Core Skills