

**Audit Committee Self-Assessment Exercise 2014/15**

Report by Head of Internal Audit

**Summary:**

The Chartered Institute of Public Finance and Accountancy (CIPFA) advocates that it is good practice for Audit Committees or their equivalent to undertake regular self-assessments. This enables members to gain an appreciation of what affords recognised operational best practice, to confirm the level of compliance being achieved, and to identify any potential areas for enhancements to be made to arrangements.

This is clarified within the Public Sector Internal Audit Standards (PSIAS) which call for Audit Committees to assess their remit and effectiveness in line with Standard 1000 – Purpose, Authority and Responsibility, in order to facilitate the work of such Committees.

This is the third time the Committee has undertaken this exercise. The CIPFA Audit Committee Self-Assessment Checklist has been circulated to members and the final version is attached in this report.

**Recommendation:** That members are asked to note the completed checklist at Appendix 1 to this report and to note that full compliance has been recognised in relation to each of the six key areas subject to scrutiny.

## **1 Background**

- 1.1 The Financial Scrutiny and Audit Committee has been operating since 16 February 2010, and since 2012/13 has undertaken an annual self-assessment review of the Committee in striving to achieve good corporate governance. This is therefore the third time that such an exercise has been completed, examining whether the Committee has been sufficiently proactive in helping to raise the profile of internal control, risk management and financial reporting matters at the Authority, as well as affording an opportunity for private discussions with the internal and external auditors.
- 1.2 The Public Sector Internal Audit Standards also call for Audit Committees to assess their remit and effectiveness in keeping with Standards 1000 – Purpose, Authority and Responsibility, in order to facilitate the work of such Committees.

- 1.3 CIPFA's Audit Committee Self-Assessment Checklist (attached at **Appendix 1**) focuses on 6 fundamental areas, and 66 individual aspects of operations. The key areas are as follows:
- Establishment, Operation and Duties;
  - Internal Control;
  - Financial Reporting and Regulatory Matters;
  - Internal Audit;
  - External Audit; and
  - Administration.

## **2 Completion of the Self-Assessment Checklist for 2014/15**

- 2.1 The last time that the Committee worked through CIPFA's Audit Committee Self-Assessment Checklist in December 2013, it was concluded that full compliance had been achieved.
- 2.2 The Self-Assessment Checklist has been reviewed and updated by the Committee Members prior to this meeting, the conclusions of which can be seen at **Appendix 1** to this report. Full compliance has once again been recognised in relation to each of the 6 key areas subject to scrutiny.

## **3 Conclusion**

- 3.1 Completion of the Audit Committee Self-Assessment Checklist has provided important feedback from members on how they view the effectiveness of the current arrangements.

Background paper:	None
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Date of Report:	5 September 2014
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 - Audit Committee Self-Assessment Checklist

## The Broads Authority - Audit Committee Self Assessment Checklist

No.	Priority	Issue	Yes	No	N/A	Comments
<b>1. ESTABLISHMENT, OPERATION AND DUTIES</b>						
<b>Role and Remit</b>						
1.1	1	Does the Financial Scrutiny and Audit committee have written terms of reference?	√			The TOR were agreed to be adopted at the Broads Authority meeting on 18 September 2009 and were agreed at the inaugural meeting of the FSAC on 16 February 2010. The TOR were further updated in March 2013 to incorporate responsibility for fraud, corruption and bribery.
1.2	1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	√			Prepared in accordance with CIPFA best practice.
1.3	1	Are the terms of reference approved and reviewed periodically?	√			See comments at 1.1.
1.4	1	Has the Financial Scrutiny and Audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	√			Members fulfil their role at each meeting, providing challenge and scrutiny to report items.
1.5	1	Can the Financial Scrutiny and Audit committee access other committees and full authority as necessary?	√			Minutes of all Committee meetings are public documents, therefore freely available to all members of the FSAC. The FSAC also reports to Full Authority.
1.6	1	Does the authority's Annual Governance Statement include a description of the Financial Scrutiny and Audit committee's establishment and activities?	√			The Annual Governance Statement, paragraph 3.11, refers to the FSAC terms of reference, in particular its responsibility for financial scrutiny, including a review of the Statement of Accounts, Annual Governance Statement, financial planning, audit and risk management.
1.7	2	Does the Financial Scrutiny and Audit committee periodically assess its own effectiveness?	√			This is the third time the FSAC has undertaken this task, the first being in December 2012 and the second in September 2013.
1.8	2	Does the Financial Scrutiny and Audit committee make a formal annual report on its work and performance during the year to full authority?			√	A formal annual report is not provided to the Full Authority, but it does receive all minutes of this Committee, which addresses this aspect. In addition, the Chairman of the meeting is always invited to raise any specific points about the work of the Committee when the full Authority receives the minutes of the FSAC meeting.
<b>Membership, Induction and training</b>						
1.9	1	Has the membership of the Financial Scrutiny and Audit committee been formally agreed and a quorum set?	√			A new Member, the Chair of the Navigation Committee, was added to the Committee in January 2014 to reflect the sizeable proportion of income from navigation tolls - this is a new initiative introduced by the Authority since the last review.

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1.10	1	Is the chair independent of the executive function?	√			
1.11	1	Has the Financial Scrutiny and Audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	√			In 2012/13 and 2013/14 the Chair confirmed that he has the appropriate knowledge in these areas.
1.12	1	Are new Financial Scrutiny and Audit committee members provided with an appropriate induction?	√			It was agreed during a previous self-assessment that new members of the FSAC would be provided with the relevant training at the earliest opportunity.
1.13	1	Have all members skills and experiences been assessed and training given for identified gaps?	√			Skills and experiences were assessed at the formation of the committee, but there is a need to ensure that skills are maintained. This is addressed through training provision as agenda items dictate the need. Specifically in relation to training on the Statement of Accounts (which was also provided for all Members of the Authority as well as the Committee).
1.14	1	Has each member declared his or her business interests?	√			Pecuniary and non-pecuniary interests must be notified to the Authority's Monitoring Officer once a member has taken up office. In addition each meeting has a standing agenda item at which declaration of interest must be made and subsequently recorded.
1.15	2	Are members sufficiently independent of the other key committees of the authority?			√	Given the size of the Authority members are as independent as they can be. However it is noted that financial scrutiny is a key function, which in other organisations is separate from Audit and resource allocation decisions are also taken. These risks are noted by the Committee and strong and robust discussions are held when making such decisions, in an attempt to mitigate any associated risks.
<b>Meetings</b>						
1.16	1	Does the Financial Scrutiny and Audit committee meet regularly?	√			Meetings are held on average 3 times a year.
1.17	1	Do the terms of reference set out the frequency of meetings?			√	The terms of reference do not set out the frequency of meetings, however the Committee will have met 3 times this year and have met regularly since its inception, therefore no further action is deemed necessary.
1.18	1	Does the Financial Scrutiny and Audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	√			The Committee meetings are timed to allow for reviews of draft and final Statement of Accounts and Annual Governance Statement, and meetings are spaced to allow review of regular and annual reporting to meet all areas of the terms of reference.
1.19	1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	√			Regular attendance is achieved.
1.20	1	Are meetings free and open without political influences being displayed?	√			As demonstrated by the Committee minutes.
1.21	1	Does the authority's S17 officer or deputy attend all meetings?	√			As demonstrated by the Committee minutes.
1.22	1	Does the Financial Scrutiny and Audit committee have the benefit of attendance of appropriate officers at its meetings?	√			As demonstrated by the Committee minutes.

No.	Priority	Issue	Yes	No	N/A	Comments
<b>INTERNAL CONTROL</b>						
2.1	1	Does the Financial Scrutiny and Audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts and Audit Regulations) including the review of the effectiveness of the system of internal audit?	√			The Committee received the Annual Governance Statement at its meeting in July 2014, and this report takes account of the Annual Report and Opinion by the Internal Audit Consortium Manager, incorporating the Annual Review of the Effectiveness of Internal Audit.
2.2	1	Does the Financial Scrutiny and Audit committee have responsibility for review and approval of the Annual Governance Statement and does it consider it separately from the accounts?	√			The Committee received the draft Statement of Accounts and then the draft Annual Governance Statement in July 2014.
2.3	1	Does the Financial Scrutiny and Audit committee consider how meaningful the Annual Governance Statement is?	√			The draft Annual Governance Statement was received by the FSAC in July 2014 and the minutes reflect the level of discussion.
2.4	1	Does the Financial Scrutiny and Audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	√			Reflected in reports presented to FSAC throughout the year.
2.5	1	Has the Financial Scrutiny and Audit committee considered how it integrates with other committees that may have responsibility for risk management?			√	The FSAC have responsibility for risk management as per their terms of reference: "to monitor the effective development and operation of risk management and review the Authority's Strategic Risk Register."
2.6	1	Has the Financial Scrutiny and Audit committee (with delegated responsibility) or the full authority adopted "Managing the Risk of Fraud - Actions to Counter Fraud and Corruption?"	√			Terms of reference now reflect the FSAC responsibility for fraud, corruption and bribery.
2.7	1	Does the Financial Scrutiny and Audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?	√			See answers to 2.6 above.
2.8	2	Is the Financial Scrutiny and Audit committee made aware of the role of risk management in the preparation of the internal audit plan?	√			This is contained in the reports as part of the Annual Audit Planning process, reports were received by FSAC on 11 February 2014.
2.9	2	Does the Financial Scrutiny and Audit committee review the authority's strategic risk register at least annually?	√			Risk reports are regularly received by FSAC.
2.10	2	Does the Financial Scrutiny and Audit committee monitor how the authority assesses its risk?	√			See answer to 2.9 above.

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2.11	2	Do the Financial Scrutiny and Audit committee's terms of reference include oversight of the risk management processes?	√			Included in terms of reference "to monitor the effective development and operation of risk management and review the Authority's Strategic Risk Register".
<b>FINANCIAL REPORTING AND REGULATORY MATTERS</b>						
3.1	1	Is the Financial Scrutiny and Audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	√			Terms of reference states "To review and recommend the Annual Statement of Accounts to the Authority for approval, to ensure that appropriate accounting policies have been followed and to consider whether there are any specific concerns that need to be brought to the attention of the Full Authority".
3.2	1	Does the Financial Scrutiny and Audit committee consider specifically: - the suitability of accounting policies and treatments; - major judgements made; - large write-offs; - changes in accounting treatment; - the reasonableness of accounting estimates; - the narrative aspects of reporting?	√			The Committee reviews the Statement of Accounts, and considers its suitability for an organisation the size of the Broads Authority. The Committee does not have delegated authority to agree large write-offs or waivers of standing orders.
3.3	1	Is a Financial Scrutiny and Audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	√			See above at 3.2
3.4	1	Does the Financial Scrutiny and Audit committee review management's letter of representation?	√			See above at 3.2
3.5	2	Does the Financial Scrutiny and Audit committee annually review the accounting policies of the authority?	√			As part of the Statement of Accounts.
3.6	2	Does the Financial Scrutiny and Audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	√			As part of the Statement of Accounts.
3.7	2	Does the Financial Scrutiny and Audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	√			Through quarterly newsletters provided by Internal Audit and through briefing notes provided by External Audit.
<b>INTERNAL AUDIT</b>						
4.1	1	Does the Financial Scrutiny and Audit committee approve annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	√			Received by the FSAC at the meeting in February 2014.

No.	Priority	Issue	Yes	No	N/A	Comments
4.2	1	Does internal audit have an appropriate reporting line to the audit committee?	√			Through attending all meetings of the FSAC and reporting by the Head of Internal Audit in her own name.
4.3	1	Does the Financial Scrutiny and Audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	√			
4.4	1	Are follow-up audits by internal audit monitored by the Financial Scrutiny and Audit committee and does the committee consider the adequacy of implementation of recommendations?	√			Audit recommendations are followed up as part of the annual Key Controls audit. The FSAC also receives regular reports from the Head of Finance updating the position in relation to the implementation of audit recommendations.
4.5	1	Does the Financial Scrutiny and Audit committee hold periodic private discussions with the Head of Internal Audit?	√			Tabled to be held annually.
4.6	1	Is there appropriate co-operation between the internal and external auditors?	√			Joint Working Protocol in place and presented to the FSAC.
4.7	1	Does the Financial Scrutiny and Audit committee review the adequacy of internal audit staffing and other resources?	√			Considered as part of the Annual Report and Opinion received by the FSAC in July 2014, which incorporate the Review of the Effectiveness of Internal Audit (now against the Public Sector Internal Audit Standards).
4.8	1	Has the Financial Scrutiny and Audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom?	√			See answer to 4.7.
4.9	2	Are internal audit performance measures monitored by the audit committee?	√			See answer to 4.7.
4.10	2	Has the Financial Scrutiny and Audit committee considered the information it wishes to receive from internal audit?	√			The is a standing programme of work for the Committee which ensures that all aspects of Internal Audit work is received by the Committee.
<b>EXTERNAL AUDIT</b>						
5.1	1	Do the external auditors present and discuss their audit plans and strategy with the Financial Scrutiny and Audit committee (recognizing the statutory duties of external audit)?	√			
5.2	1	Does the Financial Scrutiny and Audit committee hold periodic private discussions with the external auditor?	√			Tabled to be held annually.
5.3	1	Does the Financial Scrutiny and Audit committee review the external auditor's annual report to those charged with governance?	√			

No.	Priority	Issue	Yes	No	N/A	Comments
5.4	1	Does the Financial Scrutiny and Audit committee ensure that officers are monitoring action taken to implement external audit recommendations?			√	
5.5	1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	√			
5.6	1	Does the Financial Scrutiny and Audit committee assess the performance of external audit?	√			
5.7	1	Does the Financial Scrutiny and Audit committee consider and approve the external audit fee?	√			
<b>ADMINISTRATION</b>						
<b>Agenda administration</b>						
6.1	1	Does the Financial Scrutiny and Audit committee have a designated secretary from Committee/Member Services?	√			The Committee is regularly attended by Head of Governance and Executive Assistant and comprehensive minutes are produced.
6.2	1	Are agenda papers circulated in advance of meetings to allow adequate preparation by Financial Scrutiny and Audit committee members?	√			A paper copy of the agenda, and associated reports, is circulated to officers in advance of the meeting and this is also available through the website.
6.3	2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	√			Forward plan is maintained for the FSAC thus ensuring that all work is captured
6.4	2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	√			AOB is tabled in advance where this is required, allowing officers to ensure that a full response is provided at the meeting.
<b>Papers</b>						
6.5	1	Do reports to the Financial Scrutiny and Audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	√			The Committee has an agenda and report template which ensure that all relevant information is presented.
6.6	2	Does the Financial Scrutiny and Audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	√			As per the agenda and report template
<b>Actions arising</b>						
6.7	1	Are minutes prepared and circulated promptly to the appropriate people?	√			Minutes are prepared promptly and circulated to relevant Members and officers.
6.8	1	Is a report on matters arising made and minuted at the audit committee's next meeting?	√			This is considered as part of the minutes review.
6.9	1	Do action points indicate who is to perform what and by when?	√			This is noted as part of the resolution within the minutes, where appropriate.