

**Financial Scrutiny and Audit
Committee**

19 September 2013

Agenda Item No 11

Audit Committee Self-Assessment Exercise 2013/14

Report by Head of Governance and Executive Assistant

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 then to identify any areas where there is potential for further enhancements to be made to arrangements.

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

This is the second time the Committee will have undertaken this exercise. CIPFA's Audit Committee Self-Assessment Checklist has been attached to this report to enable a review of current provisions and identify any deviation from best practice guidance. The report also sets out the action points agreed as a result of the previous self-assessment, and the progress made to date in addressing these items.

Recommendations:

- (i) That members are asked to complete the checklist at **Appendix 1** to this report, in order to ascertain the extent to which the Committee is compliant in each of the six key areas subject to scrutiny.
- (ii) That members are also asked to note that, where there is any deviation in relation to best practice guidance, a subsequent report will be prepared by the Internal Audit Consortium Manager noting such items and confirming what subsequent actions have been agreed with members to further enhance operation of the Committee in the future.

1 Background

- 1.1 The Financial Scrutiny and Audit Committee has been operating since 16 February 2010, and in 2012/13 undertook the first self-assessment review of the Committee in striving to achieve good corporate governance. This is

therefore the second time that such an exercise will be 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 last time that the Committee worked through CIPFA's Audit Committee Self-Assessment Checklist, in December 2012, upon completion of the task, it was recognised that full compliance would be achieved, subject to six action points being implemented.
- 1.3 Prior to completing the Audit Committee Self-Assessment, members are advised that the new consolidated Public Sector Internal Audit Standards (PSIAS) came into force from 1 April 2013, whereas previously, public sector organisations were subject to a host of different internal audit standards, with local government provisions being required to mirror a published Code of Practice for Internal Audit produced by CIPFA.

Having reviewed the new Standards, there are implications for the role of the Financial Scrutiny and Audit Committee and reporting arrangements going forward. Basically, the new PSIAS continue to 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.

- 1.4 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 Issues of Non Compliance with the Audit Committee Self-Assessment Checklist as recognised in 2012/13

- 2.1 Action Point 1 was to ensure that the Financial Scrutiny and Audit Committee regularly (annually) review its effectiveness against the self-assessment checklist. This action is deemed to be complete, as this is the second time this task has been undertaken, thus ensuring compliance against this aspect.
- 2.2 Action Point 2 was to ensure that new member training is provided as and when necessary. There had been a new appointment to the Committee in year and it was recognized that relevant induction training had not been forthcoming and thus needed to be provided at the earliest opportunity, to ensure that this aspect of member support was being properly met going forward.

- 2.3 Action Point 3 was to ensure that training is provided on topical issues throughout the year, as agenda items are considered. The Authority has recognised the need for training on the Statement of Accounts, which has in fact been made available to all members of the Broads Authority. To date no further training requirements have been notified, however it is planned that this will be addressed should the need arise. Internal Audit also circulates Newsletters in year to provide updates on latest developments in relation to audit, finance, governance and counter fraud.
- 2.4 Action Point 4 was to ensure that the Terms of Reference of this Committee be updated to recognise responsibility for fraud, corruption and bribery. The revised terms of reference were approved by the Broads Authority in March 2013; hence the incorporation of these additional obligations now satisfies the previous deficiency noted.
- 2.5 Action Point 5 was to ensure that private discussions, at least annually, are tabled between the Committee and Internal and External Audit. The first such meeting was held prior to the formal meeting in July 2013, thus ensuring compliance against this aspect.
- 2.6 Action Point 6 was to ensure that in addition to the regular reporting cycle that is firmly in place at the Authority, a rolling work programme was to be developed and held as a standing agenda item. Confirmation has been received that there is a forward plan for the Committee thus ensuring that there is a rolling work programme in place and ultimately that all aspects of the Committee's terms of reference are met.

3 Conclusion

- 3.1 Completion of the Audit Committee Self-Assessment Checklist will provide important feedback from members as to how they view the effectiveness of current arrangements. Conversely, if there are any deviations or shortcomings apparent regarding alignment with existing best practice requirements, the Internal Audit Consortium Manager will make a further report detailing these anomalies and develop an action plan to address any issues that members have agreed should be resolved, leading to further enhancements to the way in which the Committee functions in the future.

Background paper: None

Author: Sandra King, Internal Audit Consortium Manager
Date of Report: 3 September 2013

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
1. ESTABLISHMENT, OPERATION AND DUTIES			√	√		
Role and Remit						
1.1	1	Does the audit committee have written terms of reference?				
1.2	1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?				
1.3	1	Are the terms of reference approved by the council and reviewed periodically?				
1.4	1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?				
1.5	1	Can the audit committee access other committees and full council as necessary?				
1.6	1	Does the authority's Annual Governance Statement include a description of the audit committee's establishment and activities?				
1.7	2	Does the audit committee periodically assess its own effectiveness?				
1.8	2	Does the audit committee make a formal annual report on its work and performance during the year to full council?				
Membership, Induction and training						
1.9	1	Has the membership of the audit committee been formally agreed and a quorum set?				
1.10	1	Is the chair independent of the executive function?				
1.11	1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?				

No.	Priority	Issue	Yes	No	N/A	Comments
1.12	1	Are new audit committee members provided with an appropriate induction?				
1.13	1	Have all members skills and experiences been assessed and training given for identified gaps?				
1.14	1	Has each member declared his or her business interests?				
1.15	2	Are members sufficiently independent of the other key committees of the council?				
Meetings						
1.16	1	Does the audit committee meet regularly?				
1.17	1	Do the terms of reference set out the frequency of meetings?				
1.18	1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?				
1.19	1	Are members attending meetings on a regular basis and if not, is appropriate action taken?				
1.20	1	Are meetings free and open without political influences being displayed?				
1.21	1	Does the authority's S151 officer or deputy attend all meetings?				
1.22	1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?				
INTERNAL CONTROL						
2.1	1	Does the 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?				
2.2	1	Does the audit committee have responsibility for review and approval of the Annual Governance Statement and does it consider it separately from the accounts?				
2.3	1	Does the audit committee consider how meaningful the Annual Governance Statement is?				

No.	Priority	Issue	Yes	No	N/A	Comments
2.4	1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?				
2.5	1	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?				
2.6	1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud - Actions to Counter Fraud and Corruption?"				
2.7	1	Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?				
2.8	2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?				
2.9	2	Does the audit committee review the authority's strategic risk register at least annually?				
2.10	2	Does the audit committee monitor how the authority assesses its risk?				
2.11	2	Do the audit committee's terms of reference include oversight of the risk management processes?				
FINANCIAL REPORTING AND REGULATORY MATTERS						
3.1	1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?				
3.2	1	Does the 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?				
3.3	1	Is an 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?				

No.	Priority	Issue	Yes	No	N/A	Comments
3.4	1	Does the audit committee review management's letter of representation?				
3.5	2	Does the audit committee annually review the accounting policies of the authority?				
3.6	2	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?				
3.7	2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?				
INTERNAL AUDIT						
4.1	1	Does the 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?				
4.2	1	Does internal audit have an appropriate reporting line to the audit committee?				
4.3	1	Does the 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 audit committee and does the committee consider the adequacy of implementation of recommendations?				
4.5	1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?				
4.6	1	Is there appropriate co-operation between the internal and external auditors?				
4.7	1	Does the audit committee review the adequacy of internal audit staffing and other resources?				
4.8	1	Has the 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?				
4.9	2	Are internal audit performance measures monitored by the audit committee?				
4.10	2	Has the audit committee considered the information it wishes to receive from internal audit?				

No.	Priority	Issue	Yes	No	N/A	Comments
EXTERNAL AUDIT						
5.1	1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?				
5.2	1	Does the audit committee hold periodic private discussions with the external auditor?				
5.3	1	Does the audit committee review the external auditor's annual report to those charged with governance?				
5.4	1	Does the 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 audit committee assess the performance of external audit?				
5.7	1	Does the audit committee consider and approve the external audit fee?				
ADMINISTRATION						
Agenda administration						
6.1	1	Does the audit committee have a designated secretary from Committee/Member Services?				
6.2	1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?				
6.3	2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?				
6.4	2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?				

No.	Priority	Issue	Yes	No	N/A	Comments
Papers						
6.5	1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?				
6.6	2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?				
Actions arising						
6.7	1	Are minutes prepared and circulated promptly to the appropriate people?				
6.8	1	Is a report on matters arising made and minuted at the audit committee's next meeting?				
6.9	1	Do action points indicate who is to perform what and by when?				