

Outcomes of Audit Committee Self Assessment Exercise 2012/13
Report by Head of Internal Audit

Summary:

The Chartered Institute for Public Finance (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.

At the previous meeting of the Committee on the 4 December 2012 a report was received on the Self Assessment exercise undertaken by members against a checklist of measures designed to test whether they are suitably equipped to perform their role on behalf of the organisation. This report summarises the outcomes of the review and provides an action plan to augment existing arrangements.

Recommendation: That members are requested to note and confirm the outcomes of the Self Assessment exercise and agree the action plan proposed.

1 Background

1.1 The Financial Scrutiny and Audit Committee has been in operation since 16 February 2010 but had previously not carried out a Self Assessment exercise to gauge how it performs against best practice guidelines. It was agreed that the CIPFA questionnaire should be circulated and completed by the Committee prior to the meeting on the 4 December 2012. The outcomes of the exercise have provided an indication as to the extent of compliance being achieved in relation to published best practice guidance and it was agreed that where gaps were found in current arrangements, these should be highlighted and provisions developed to resolve any deviations and/or non-compliance noted.

1.2 The information generated by the Self-Assessment exercise will also help to inform the annual review of the Effectiveness of Internal Audit, which, in turn, will assist with the completion of the Annual Governance Statement.

2 Issues of Non Compliance with the Audit Committee Self Assessment Checklist

2.1 **Appendix 1** to this report summarises the responses received from members of this Committee, whilst audit comments have referred to how compliance is met against each of the criteria and also which action point will ensure that any gaps are met to ensure full compliance with the checklist and to ensure that best practice is adopted.

2.2 Since its inception on 16 February 2010, the Committee had not carried out a Self Assessment exercise, this has now been rectified by member completion of the CIPFA questionnaire. However this process needs to continue to be undertaken at regular intervals, i.e. annually.

Action Point 1 – To regularly (annually) review the effectiveness of the Financial Scrutiny and Audit Committee against the self assessment checklist.

2.3 Membership of the Committee has been very stable since the start, with only one new member being appointed to the Committee recently. This has highlighted the need to ensure that there is induction training for new members.

Action Point 2 – New member training to be provided, as and when necessary, by relevant officers, and in particular for the new member at the earliest opportunity.

2.4 The skills and experience of the members were assessed at the formation of the Committee; however it does need to be ensured that these skills are maintained and that the appropriate training is provided when necessary. This could be addressed through refresher training at key points of the year, for example when the Statement of Accounts are reviewed, or when there are new agenda topics introduced where members would benefit from some additional briefing.

Action Point 3 – Training is to be provided on topical issues throughout the year, as agenda items are considered.

2.5 The terms of reference were formally adopted by the Committee in February 2010, however these have not been reviewed since that time. It was also recognised at a Committee meeting in July 2012 that the terms of reference needed to include reference to the responsibility for fraud, corruption and bribery. This is already in the plan of work.

Action Point 4 – That the terms of reference (paragraph 3) be amended to state – “To approve the Authority’s Financial Regulations, Standing Orders relating to contracts and fraud, corruption and bribery arrangements.” This review is also to consider the terms of reference as a whole for adequacy.

2.6 There are currently no arrangements in place for periodic private discussions with Internal Audit and External Audit. It was agreed at the meeting on 4

December 2012 that this would be timetabled annually to be held before the meeting that considers the Strategic and Annual Internal Audit Plans. The first private meeting is to be held on the 12 February 2013.

Action Point 5 – Private discussions to be held with the Committee, at least annually, the first of which will be held following the meeting in February 2013, subject to member availability.

- 2.7 The Committee receives regular and relevant reports on finance, audit and risk management, however the Committee has not officially considered the information it wishes to receive from Internal Audit. In addition, outline agendas are not prepared one year in advance, although it is recognised that a framework is in place for reporting. A rolling work programme would clarify the timing of reports, ensure that all matters are considered at the right time and enable members to prepare for particular items in advance, for example through training (see action point 3).

Action Point 6 – A rolling work programme is to be developed and held as a standing agenda item.

3 Conclusion

- 3.1 Undertaking the CIPFA Self Assessment exercise has highlighted that there is compliance with a large number of the items on the checklist. The implementation of the six action points to address areas where improvement is required will ensure that best practice is met and that full compliance is reached.

Background papers: None

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Broads Plan Objectives: None

Appendices: APPENDIX 1 – The Broads Authority – Audit Committee Self Assessment Checklist

The Broads Authority - Audit Committee Self Assessment Checklist

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
1. ESTABLISHMENT, OPERATION AND DUTIES			√	√		
Role and Remit						
1.1	1	Does the Financial Scrutiny and Audit Committee have written terms of reference?	√		4 out of 5 members were aware of the written terms of reference, 1 officer had not been provided with a copy of these (see action point 2).	The terms of reference were agreed to be adopted at the Broads Authority meeting on 18 September 2009. These were then agreed at the inaugural meeting of the Financial Scrutiny and Audit Committee on 16 February 2010.
1.2	1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	√		4 out of 5 members felt that the terms of reference were in accordance with best practice, however one member did not feel fully briefed in relation to CIPFA (see action point 1).	The terms of reference were prepared in accordance with the CIPFA best practice.
1.3	1	Are the terms of reference approved and reviewed periodically?	√		Members were in agreement that the terms of reference had been approved but felt there was a need for periodic review.	The terms of reference were approved by the Broads Authority on 18 September 2009 and were adopted by this Committee on 16 February 2010. However they have not been reviewed since this time. A review is planned for March 2013 (see action point 4 below).
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?	√		All members felt that the membership, authority and resources were sufficient.	Members fulfil their role at each meeting, providing challenge and scrutiny to reports items.
1.5	1	Can the Financial Scrutiny and Audit Committee access other committees and full authority as necessary?	√		All members felt that this was possible if needed.	Minutes of all Committee meetings are public documents, therefore freely available to all members of FSAC. FSAC also reports to the 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?	√		Members felt that was reflected in the Annual Governance Statement, albeit briefly.	The Annual Governance Statement, at 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.

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
1.7	2	Does the Financial Scrutiny and Audit Committee periodically assess its own effectiveness?		√	Members were aware that this had not previously been done, and that this exercise was achieving compliance.	This is the first time the Committee has assessed its own effectiveness. Action Point 1 - to regularly review the effectiveness of the Financial Scrutiny and Audit Committee.
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?		√	Members were clear that this is not done formally but the minutes of each meeting are received by the Broads Authority, together with a verbal report by the Chairman of the Committee.	A formal annual report is not prepared but all minutes of this Committee are presented at the Full Authority meetings. No further action is felt necessary.
Membership, Induction and training						
1.9	1	Has the membership of the Financial Scrutiny and Audit Committee been formally agreed and a quorum set?	√		All members felt that this has been set.	
1.10	1	Is the chair independent?	√		All members felt that the Chair is sufficiently independent.	
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?	√		3 of the 5 members felt that the Chair had sufficient knowledge, and 2 were unsure.	The Chair of the Committee has 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?		√	Members acknowledged that there has only been one new member (recently) since the advent of the Committee. Members acknowledged that this needs to be addressed.	No induction training has been made available to the newest member of the Committee. Action point 2 - new member training to be provided as and when needed by relevant officers, and in particular to be provided to the new member at the earliest opportunity.
1.13	1	Have all members skills and experiences been assessed and training given for identified gaps?		√	4 members did not feel that this had been assessed, however one member felt that this was taken into consideration in determining the membership of the committee.	Although these skills and experiences may have been assessed at the formation of the committee, there is the need to ensure that the skills are maintained and that the appropriate training is provided when necessary, for example refresher training at the time of assessing the Statement of Accounts. Action Point 3 - training is to be provided on topical issues throughout the year, as agenda items are considered.

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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 office. In addition, each meeting has an agenda item at which declarations of interest must be made, and subsequently recorded.
1.15	2	Are members sufficiently independent of the other key committees of the council?	√		All members felt that they are sufficiently independent to other committees.	
Meetings						
1.16	1	Does the Financial Scrutiny and Audit Committee meet regularly?	√			Meetings of the committee were held 4 times during 2012 this was; 14 February, 10 July, 21 September and 4 December.
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 has met 4 times this year and regularly since its inception therefore no further action is felt 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 both reviews and final review of the Statement of Accounts and Annual Governance report, and meetings are spaced to allow review of regular and annual reporting.
1.19	1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	√			From review of the meetings in 2012 it can be seen that apologies were received from one member in February and July, from 2 members in September and in December there was full attendance. No further action required.
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	Member Comments	Audit Comments
INTERNAL CONTROL						
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 on 10 July 2012. The Annual Governance Statement takes into account the outcomes of an exercise conducted annually into the effectiveness of Internal Audit, as well as the Head of Internal Audit's Annual Report and Opinion (which covers systems of internal control and risk management, and governance arrangements currently in operation at the authority).
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?	√		One member stated that they cannot approve but can recommend for approval by the Full Authority.	The Annual Governance Statement was reviewed on 10 July 2012 (agenda item 8) and then the (draft) Statement of Accounts were reviewed (agenda item 9). These were considered separately, see minutes.
2.3	1	Does the Financial Scrutiny and Audit Committee consider how meaningful the Annual Governance Statement is?	√			The Annual Governance Statement was presented to committee on 10 July 2012, the minutes reflect the discussion had and that amendments were proposed.
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 the committee 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?	√		2 members confirmed that responsibility for risk management rests with this committee, however 3 members raised concerns; not done formally, not aware and current arrangement may not be good enough.	The terms of reference for the committee state: "to monitor the effective development and operation of risk management, and review the Authority's Strategic Risk Register. The risk register was reviewed on 14 February 2012 and 4 December 2012. Member response may highlight the requirement for some refresher training this area, (see action points 2 and 3) ."

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
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?"	√		Members noted receipt of the Strategy but also acknowledge that this responsibility needed reflecting in the terms of reference.	The Counter Fraud, Corruption and Bribery Strategy was received by the committee on 10 July 2012 and endorsed. It was also noted at this committee that the terms of reference needed updated to incorporate this element of responsibility. Action point 4 - that the terms of reference (paragraph 3) be amended to state: 'To approve the Authority's Financial Regulations, Standing Orders relating to Contracts and fraud, corruption and bribery arrangements'. This review is also to consider the whole of the terms of reference for adequacy.
2.7	1	Does the Financial Scrutiny and Audit Committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?	√		Although responding positively, a member queried the use of the word "ensure" as it was felt they agree the strategy and staff implement it.	Internal Audit's Terms of Reference, Strategy, Strategic and Annual Audit Plans all seek to ensure that "Actions to Counter Fraud and Corruption" are implemented. All related documentation and the outcome of audit work are presented to the Committee on an agreed cyclical reporting basis (see action point 4 for further clarity).
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 within Internal Audit's Terms of Reference, Annual Audit Needs Assessment and the Internal Audit Strategy, as presented to the Committee on 14 February 2012.
2.9	2	Does the Financial Scrutiny and Audit Committee review the authority's strategic risk register at least annually?	√			Strategic Risk Register reports were received on 14 February 2012 and 4 December 2012.
2.10	2	Does the Financial Scrutiny and Audit Committee monitor how the authority assesses its risk?	√			Strategic Risk Register reports were received on 14 February 2012 and 4 December 2012.
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".

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
FINANCIAL REPORTING AND REGULATORY MATTERS						
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 state: "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 which 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 in receives a report which details the main points and covers significant judgements and accounting policy.
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 an other issues arising form the audit?	√			The External Auditor's Annual Governance Report was received by the committee on 21 September 2012.
3.4	1	Does the Financial Scrutiny and Audit Committee review management's letter of representation?	√			The External Auditor's Annual Governance Report was received by the committee on 21 September 2012. This includes the letter of management representation.
3.5	2	Does the Financial Scrutiny and Audit Committee annually review the accounting policies of the authority?	√			This is achieved as part of the review 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?	√		4 members responded positively to this, especially due to the changes over the last 2 years, however there was the question raised as to whether this is detailed enough.	This is done as part of the review of the Statement of Accounts, however responses would indicate that training in this area would be beneficial (see action point 3).
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?	√	√	Members felt that this is achieved to some degree through the newsletters and general training in financial matters (not specifically for FSAC members) but there is no recognisable training.	Newsletters are distributed to member on a quarterly basis, however members would benefit from some more formal training at key points in the year (see action point 3).

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
INTERNAL AUDIT						
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?	√			The Internal Audit Strategic and Annual Plans are received by the Committee on an annual basis, in 2012 this was on 14 February 2012. The reports cover all requirements.
4.2	1	Does internal audit have an appropriate reporting line to the Financial Scrutiny and Audit Committee?	√			The Head of Internal Audit, or her Deputy, attends Committee meetings, and the Internal Audit Terms of Reference allow her to report unedited 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?	√			Reports were received by the Committee on 14 February, 10 July and 4 December during 2012. The annual report was received on 10 July 2012.
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?	√			Reports are received by the Committee upon the implementation of Internal Audit recommendations, these were received on 14 February, 10 July and 4 December, during 2012. Audit recommendations are also followed as part of the key controls audit, undertaken annually, the results of which are reported to the committee.
4.5	1	Does the Financial Scrutiny and Audit Committee hold periodic private discussions with the Head of Internal Audit?		√	Members were aware that this has not happened to date and the regularity of these were questioned, but it was felt necessary that these need to happen.	There are currently no arrangements for periodic private discussions to be held. Action point 5 - private discussion to be held with the committee, the first of which will be held following the committee meeting in February 2013, subject to member availability.
4.6	1	Is there appropriate co-operation between the internal and external auditors?	√			A Joint Audit Working Protocol was in place with the Audit Commission, and there were regular meetings held between Internal and External Audit. NB: A Joint Audit Working Protocol will need to be prepared between Internal Audit and Ernst Young.
4.7	1	Does the Financial Scrutiny and Audit Committee review the adequacy of internal audit staffing and other resources?	√			This is considered as part of the review of effectiveness of Internal Audit, received by Committee 10 July 2012.

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
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?	√			Considered as part of the review of effectiveness of Internal Audit, received by Committee on 10 July 2012. The Head of Internal Audit initially reviews CIPFA's Code of Practice for Internal Audit in Local Government each year and then refers to the outcomes of the exercise to the Committee in the annual report.
4.9	2	Are internal audit performance measures monitored by the Financial Scrutiny and Audit Committee?	√			These are considered as part of the review of the effectiveness of Internal Audit, received by Committee on 10 July 2012.
4.10	2	Has the Financial Scrutiny and Audit Committee considered the information it wishes to receive from internal audit?			Members believed so although perhaps not specifically and all reports received were accepted.	Reports submitted to the committee cover all aspects of the work of Internal Audit, other reports are also received in relation to financial matters and risk management. A rolling work programme would clarify the timing of reports, ensure that all matters are considered at the right time and enable members to prepare for particular items, through for example, training. Action point 6 - Rolling work programme to be developed and held as a standing agenda item.
EXTERNAL AUDIT						
5.1	1	Do the external auditors present and discuss their audit plans and strategy with the Financial Scrutiny and Audit Committee (recognising the statutory duties of external audit)?	√			The Audit Commission presented its Annual Plan report to the committee on 10 July.
5.2	1	Does the Financial Scrutiny and Audit Committee hold periodic private discussions with the external auditor?		√	Members were aware that this has not happened to date and the regularity of these were questioned, but it was felt necessary that these need to happen.	There are currently no arrangements for periodic private discussions to be held. Action point 5 - private discussion to be held with the committee, at least annually, the first of which will be held following the committee meeting in February 2013, subject to member availability.
5.3	1	Does the Financial Scrutiny and Audit Committee review the external auditor's annual report to those charged with governance?	√			The External Auditor's Annual Governance Report was received by the committee on 21 September 2012.

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
5.4	1	Does the Financial Scrutiny and Audit Committee ensure that officers are monitoring action taken to implement external audit recommendations?	√			There have been no recent actions arising from the External Auditors review.
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?	√			Reports were received by the Committee on 10 July 2012 (Audit Commission Audit Plan 2011/12 and External Audit Update), and on 21 September 2012 (Audit Commission Annual Governance Report 2011/12).
5.6	1	Does the Financial Scrutiny and Audit Committee assess the performance of external audit?	√			External Audit is subject to scrutiny over the quality of its work, which is published on Audit Commission's website. However members will question and challenge work where felt appropriate.
5.7	1	Does the Financial Scrutiny and Audit Committee consider and approve the external audit fee?	√		The committee questions the Value For Money for this service quite robustly	Management have received the fee letter and an update on fees was given to committee when the Annual Governance Report was presented in September. The annual plan report for 2012/13 is due to the committee in the new year and will cover the fees for 2012/13.
ADMINISTRATION						
Agenda administration						
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 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?		√	Not formally but the experience of the Committee business over (now) three years is beginning to provide a framework for what is done when	Outline agendas are currently not prepared one year in advance, although it is noted that a framework is in place for reporting. Action point 6 - a rolling work programme is to be developed and held as a standing agenda item.
6.4	2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	√			Any Other Business was received by officers in advance of the December meeting, allowing the item to be timetabled and an official response provided, it also enabled appropriate officers to attend.

No.	Priority	Issue	Yes	No	Member Comments	Audit Comments
Papers						
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?	√		Members were of the opinion that the reports to FSAC follow a tried and tested Authority format, and Members have not queried whether there need to be additional guidance.	As per the agenda and report template
Actions arising						
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.