

**REPORT FOR: GOVERNANCE, AUDIT
AND RISK
MANAGEMENT AND
STANDARDS
COMMITTEE**

Date of Meeting: 4 September 2018

Subject: **INFORMATION REPORT – Audit
Committee Review**

Responsible Officer: Dawn Calvert – Director of Finance

Exempt: No

Enclosures: Appendix1 – Terms of Reference
Appendix 2 – CIPFA Audit Committees
/Practical Guidance for Local
Authorities and Police 2018 Edition

Section 1 – Summary

This report outlines the approach to be taken to the Internal Audit review of the audit committee as agreed as part of the 2018/19 Internal Audit Plan.

FOR INFORMATION

Section 2 – Report

Background

- 2.1. As part of the 2017/18 annual governance review it was identified that the audit committee role, undertaken by the GARMS Committee, has not been specifically reviewed against best practice, as contained in CIPFA guidance, for several years. This was identified as a minor governance gap and to address this an Internal Audit review of the audit committee was included in the 2018/19 Internal Audit Plan, as agreed by the GARMS Committee on 17/07/18.
- 2.2. A Terms of Reference for the review, agreed with the Chair of GARMS, is attached at Appendix 1 for information and the CIPFA Audit Committees/Practical Guidance for Local Authorities and Police which was updated earlier in 2018 is attached at Appendix 2 for reference.

Overview of CIPFA Guidance

- 2.3. The CIPFA guidance incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)* ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee.
- 2.4. The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and recognises that audit committees are a key component of governance.
- 2.5. It 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.
- 2.6. Audit committees in local authorities are necessary to help satisfy certain statutory requirements. For example in England, the Accounts and Audit (England) Regulations 2015 state that a local authority is responsible "for 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". In addition, in England, Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs".
- 2.7. The chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit, helping to ensure that it is adequate and effective. Both these elements are now enshrined in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN).

2.8 The guidance states that best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues.

2.9 As well as the Position statement the guidance covers:

- The purpose of audit committees;
- The core functions of an audit committee;
- Possible wider functions of an audit committee;
- Independence and accountability;
- Membership and effectiveness;
- Sector and devolved government guidance (Appendix A);
- Suggested terms of reference (Appendix B);
- Audit committee members – knowledge and skills framework (Appendix C);
- Self-assessment of good practice (Appendix D); and
- Evaluating the effectiveness of the audit committee (Appendix E).

Proposed Approach to the Review

2.10 The Terms of Reference attached at Appendix 1 outlines the proposed approach and output of the review. It is intended, using Appendix D (self-assessment of good practice) and Appendix E (evaluation the effectiveness of the audit committee) for the GARMS Committee to undertake a self-assessment against the guidance facilitated by the Head of Internal Audit & Corporate Anti-fraud.

2.11 This will be achieved by inviting all GARMS members to attend a session immediately following this meeting where each member will be provided with self-assessment documentation to complete. The Head of Internal Audit will lead the discussion on each area of the self-assessment providing members with supporting information to enable them to complete the self-assessment.

2.12 At the end of the session individual completed self-assessments will be collected in, the results collated and reported back to the next GARMS meeting with a proposed action plan for the committee's comments and agreement. After the meeting a review of the GARMS Committee's Terms of Reference will also be undertaken against the CIPFA guidance (Appendix B) by the Head of Internal Audit & Corporate Anti-fraud and the results and any suggested improvements reported on at the next meeting in the form of a proposed new Terms of Reference.

Further Information

The next report on the Internal Audit review of the audit committee against best practice will be presented to the GARMS Committee in December 2018 and then, once agreed, onto Council.

Financial Implications

There are no financial implications to this report.

Equalities implications

None

Corporate Priorities

The Internal Audit and Corporate Anti-Fraud Service contribute to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert



Chief Financial Officer

Date: 21/08/18

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud,
Tel: 0208 424 1420

Background Papers: None