AMBER/GREEN
ASSURANCE

AUDIT COMMITTEE REVIEW

DATE: 21st November 2018

CLIENT: GARMS Committee

AUDITOR: Susan Dixson – Head of Internal Audit

MANAGER: Susan Dixson – Head of Internal Audit

DISTRIBUTION LIST: GARMS Committee
                               Dawn Calvert – Director of Finance

Internal Audit

HarrowCOUNCIL
LONDON

Executive Summary

1. The review forms part of the 2018/19 Internal Audit annual plan which has been developed from a risk assessment and consultation process. This review provides an independent and objective opinion on the system under review by evaluating its effectiveness in achieving the organisations objectives.

2. **The system objective**:
    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.
    CIPFA :Audit Committees: Practical Guidance for Local Authorities and Police \ 2018 Edition

3. **The audit objective:**
    The objective of this review is to provide assurance that the Council's Audit Committee (Governance, Audit, Risk Management and Standards Committee – GARMS) complies with best practice as outlined in the CIPFA :Audit Committees: Practical Guidance for Local Authorities and Police \ 2018 Edition.

4. **The Scope:**
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    - Audit committee purpose and governance;
    - Functions of the committee;
    - Membership and support;
    - Effectiveness of the committee;
    - Review and update of the GARMS Committee Terms of Reference.

5. **Methodology**
    An evidence based self-assessment was undertaken by the GARMS Committee against the CIPFA: Audit Committees: Practical Guidance for Local Authorities and Police \ 2018 Edition facilitated and evidenced by the Head of Internal Audit & Corporate Anti-fraud. In addition the Terms of Reference for the Committee has been reviewed against the guidance.

6. Recommendations made have been rated according to risk:
    High Risk: major issues that require action, key objectives will not be met and serious threat of fraud.
    Medium Risk: serious threat to the achievement of objectives and potential threat of fraud.
    Low Risk: best practice where there is a small effect on objectives.

7. All internal audit reports are given an assurance rating.

    Amber/Green reports will indicate medium to low risk in need of attention to prevent them becoming high risk and

Audit Opinion

8. An Amber/Green assurance is given to the performance of the Audit Committee (GARMS) against the good practice principles outlined in the CIPFA Guidance indicating that the committee is soundly based and has in place a knowledgeable membership. Overall 71% of

the good practice was found to be in place and operating or substantially operating effectively. 11 recommendations have been made to address the areas identified as only partially or not operating, 8 are rated as medium risk and 3 are rated as low risk.

Agreed Actions

9.   In the final report the agreed actions will be shown with the implementation date and the responsible officer.

DETAILED REPORT

10.   An evidence based self-assessment was undertaken by the GARMS Committee against the CIPFA: Audit Committees: Practical Guidance for Local Authorities and Police\2018 Edition, facilitated and evidenced by the Head of Internal Audit & Corporate Anti-fraud. Results are shown in Appendix B. All members of the Committee took part in the self-assessment and were asked to individually assess whether the committee meets the good practice outlined in the guidance.   Part 1 is covered in paragraphs 11 – 14 below and good practice was rated Yes (in place), Partially (in place) or No (not in place) with the majority of answers being used as the final rating. For Part 2 covered in paragraph 15 below individual assessments were rated 1-5 (descriptions for each assessment shown in Appendix A) and an average was taken of these to provide the final assessment as there was not a clear majority in very area.

11.   Audit Committee Purpose and Governance

The following good practice was identified as being in place:

- the authority has a dedicated audit committee;
- the audit committee report directly to full council;
- the audit committee provide support to the authority in meeting the requirements of good governance.

The following good practice was identified as being partially in place:

- the role and purpose of the audit committee is understood and accepted across the authority;
- the arrangements to hold the committee to account for its performance are operating satisfactorily.

The following good practice was identified as not being in place:

- the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement

12.   **Functions of the Committee**

The following good practice was identified as being in place:

- the committee's terms of reference explicitly address all the following core areas identified in CIPFA's Position Statement:

  ➢ good governance;
  ➢ internal audit:

- external audit;
- financial reporting;
- risk management:
- counter fraud and corruption;

- the audit committee have considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them;
- the committee has maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose.

The following good practice was identified as being partially in place:

- the committee's terms of reference explicitly address all the following core areas identified in CIPFA's Position Statement:

  - assurance framework, including partnerships and collaboration arrangements;
  - supporting the ethical framework.

The following good practice was identified as not being in place:

- the committee's terms of reference explicitly address all the following core areas identified in CIPFA's Position Statement:

  - value for money or best value;

- an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas

13. Membership and Support

The following good practice was identified as being in place:

- the chair of the committee has appropriate knowledge and skills;
- arrangements are in place to support the committee with briefings and training;
- the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO;
- adequate secretariat and administrative support to the committee is provided;
- an effective audit committee structure and composition of the committee has been selected including separation from the executive, an appropriate mix of knowledge and skills among the membership, a size of committee that is not unwieldy.

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The following good practice was identified as being substantially in place:

- consideration has been given to the inclusion of at least one independent member.

The following good practice was identified as not being in place:

- the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory.

14. **Effectiveness of the Committee**

The following good practice was identified as being in place:

- meetings are effective with a good level of discussion and engagement from all the members;
- the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers;

The following good practice was identified as not being in place:

- the committee has obtained feedback on its performance from those interacting with the committee or relying on its work;
- the committee make recommendations for the improvement of governance, risk and control and are these acted on;
- the committee evaluated whether and how it is adding value to the organisation;
- the committee have an action plan to improve any areas of weakness (however the action plan of this review will serve this purpose);
- the committee publish an annual report to account for its performance and explain its work.

15. **Evaluating the Effectiveness of the Audit Committee**

Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable:

- supporting the development of robust arrangements for ensuring value for money.

Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of these areas:

- contributing to the development of an effective control environment;
- supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks;
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
- supporting the quality of the internal audit activity, particularly by underpinning its organisational independence;
- helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.

The committee has had mixed experience in supporting improvement in these areas. There is some evidence that demonstrates their impact but there are also significant gaps:

- promoting the principles of good governance and their application to decision making;
- aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.

There is some evidence that the committee has supported improvements in the following area, but the impact of this support is limited:

- promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.

16.   Review of the Terms of Reference

The review of the committee's terms of reference takes into account the current terms of reference (Appendix C) indicating what has been included in the new terms of reference and what has not, the CIPFA Guidance suggested terms of reference (as reported to the last meeting), the self-assessment against best practice undertaken by the committee as part of this review and current practice.

The proposed updated terms of reference (Appendix D) is provided for the committee's consideration and agreement.

DETAILED REPORT / ACTION PLAN

Ref	Associated Risk	Findings	Recommendation	Risk Rating H/M/L	Agreed Action / Responsible Officer / Implementation Date
1.Audit Committee Purpose and Governance					
1.1	The purpose and role of the committee is unclear.	The GARMS Committee Terms of Reference has not been reviewed/updated since 2010 although it is being reviewed as part of this review. The current Terms of Reference does not clearly set out the purpose of the committee in accordance with CIPFA's 2018 Position Statement and does not clearly reflect the committee's current role. Having an up to date and clear Terms of Reference will help to ensure that the role and purpose of the committee is understood and accepted across the authority as it forms part of the Constitution.	To agree the Terms of Reference updated as part of this review to clearly reflect the purpose of the committee and its current role.	**M**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**

DETAILED REPORT / ACTION PLAN

Ref	Associated Risk	Findings	Recommendation	Risk Rating H/M/L	Agreed Action / Responsible Officer / Implementation Date
1.2	The committee is not accountable for its performance.	The committee does not currently report on its performance to those charged with governance: the Council. The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: the council. In addition, publication of the report will assist other stakeholders to understand the work of the committee. Many Audit Committees in other authorities prepare such a report.	(a) An annual report should be prepared for Council and published. Consideration should be given to including the following aspects in the report: • whether the committee has fulfilled its agreed terms of reference • whether the committee has adopted recommended practice • whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities • whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review • what impact the committee has on the improvement of governance, risk and control within the authority.	M	**Agreed Action:** **Responsible Officer:** **Implementation Date:**
			(b) The Head of Internal Audit should prepare a draft format for the report, taking into account reports in other authorities, for the committee to agree.	M	**Agreed Action:** **Responsible Officer:** **Implementation Date:**

DETAILED REPORT / ACTION PLAN

Ref	Associated Risk	Findings	Recommendation	Risk Rating H/M/L	Agreed Action / Responsible Officer / Implementation Date
2.Functions of the Committee:					
2.1	The committee do not cover the core areas identified in the CIPFA's Position Statement.	The committee's terms of reference does not explicitly/fully address the following core areas identified in CIPFA's Position Statement: ➢ assurance framework, including partnerships and collaboration arrangements; ➢ supporting the ethical framework; ➢ value for money or best value; These have been included in the proposed new Terms of reference prepared as part of this review.	See recommendation 1.1		
2.2	The committee does not fulfil its terms of reference and core areas are not adequately considered.	An annual evaluation is not currently undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas.	An annual evaluation should be undertaken and the results included in the annual report.	**M**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**

DETAILED REPORT / ACTION PLAN

Ref	Associated Risk	Findings	Recommendation	Risk Rating H/M/L	Agreed Action / Responsible Officer / Implementation Date
3. Membership and support:					
3.1	The core knowledge and skills of committee members are not satisfactory.	The membership of the committee has not been assessed against the core knowledge and skills framework and found to be satisfactory.	Committee members should review their knowledge and skills against the core knowledge and skills framework contained within the CIPFA guidance to enable training needs to be identified and addressed.	**M**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**
4. Effectiveness of the committee:					
4.1	The committee spends too much time on minor areas rather than strategic or wide-ranging issues. Political points of view interfere with the work of the audit committee.	The committee has not obtained feedback on its performance from those interacting with the committee or relying on its work.	(a) Consideration should be given to seeking feedback from meeting participants, e.g. support officers, managers, external auditors and Council on an annual basis to supplement the annual evaluation process recommended in 2.2.	**M**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**
			(b) The Head of Internal Audit should prepare a draft format seeking feedback for the committee to agree.	**M**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**
4.2	The committee does not help to improve the governance, risk and control environment of the organisation.	The committee does not generally make formal recommendations for the improvement of governance, risk and control. However informal recommendations have been made in the past on, for example, the Corporate Risk Register, management responses to internal audit reports and changes have been formally requested to the draft annual governance statement and matters have occasionally been referred to other committees.	Consideration to be given to whether the committee wishes to make formal recommendations for action to senior management for the improvement of governance, risk and control in the future and how this will be recorded and responses received and followed up.	**L**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**

DETAILED REPORT / ACTION PLAN

Ref	Associated Risk	Findings	Recommendation	Risk Rating H/M/L	Agreed Action / Responsible Officer / Implementation Date
4.3	The committee is not recognised as adding value to the organisation.	The committee does not currently evaluate whether and how the governance arrangements support the achievement of sustainable outcomes.	To be evaluated annually and covered in the annual report.	**L**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**
4.4	Failing to promote effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	The committee does not currently publish an annual report to account for its performance and explain its work	See recommendation 1.2(a)		
5. Evaluating the effectiveness of the audit committee:					
5.1	The committee does not effectively promote the principles of good governance and their application to decision making	The committee does not actively work with key members to improve their understanding of the AGS and their contribution to it.	Consideration should be given by the committee to how this could be achieved e.g. the publication of an annual report by the committee, briefings provided by the Chair to the Leader/Cabinet, briefings provided by the Vice-chair to the Leader of the opposition/shadow cabinet.	**M**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**

DETAILED REPORT / ACTION PLAN

Ref	Associated Risk	Findings	Recommendation	Risk Rating H/M/L	Agreed Action / Responsible Officer / Implementation Date
5.2	Failure to aid the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	The committee review how the governance arrangements support the achievement of sustainable outcomes via the annual review of governance process; reviews of major projects and programmes to ensure governance and assurance arrangements are in place are included in the Internal Audit Plan and the committee specifically considers the performance management of Internal Audit, Corporate Anti-fraud, Finance and Treasury Management (via regular reports throughout the year) and performance in value for money is considered as part of the Annual Governance Review and Statement. However the committee's self- assessment rated this area as a 3 = The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.	Consideration should be given to whether the committee would like to increase their review of: • governance arrangements support the achievement of sustainable outcomes; • major projects and programmes to ensure that governance and assurance arrangements are in place; or • the effectiveness of performance management arrangements; and how this would be achieved.	**L**	**Agreed Action:** **Responsible Officer:** **Implementation Date:**
5.3	Failure to promote effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	Committee meetings are held in public, with the exception of exempt items, and this contributes to the accountability of the authority to the public and stakeholders. However, as stated above the committee do not currently publish an annual report.	See recommendation 1.2(a)		