

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **18 November 2014**

By: **Chief Operating Officer**

Title of report: **Assessing and Reporting on Audit Committee Effectiveness**

Purpose of report: **To provide Members with further information on how audit committee effectiveness can be assessed and reported in line with good practice.**

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**RECOMMENDATIONS:**

- 1. The Committee is recommended to consider whether an annual exercise to review and assess its effectiveness should be undertaken and whether the results of this work should be published within an annual audit committee report; and**
  - 2. Should the above recommendation be agreed, the Committee is recommended to set up a small cross party panel of Members to undertake the review with support from officers.**
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**1. Financial Appraisal**

- 1.1 There are no direct financial implications from this report.

**2. Supporting Information**

- 2.1 CIPFA has recently issued up to date guidance on the function and operation of audit committees in local authorities. The guidance represents good practice, whilst making it clear that the way in which audit committees are organised will vary depending upon the specific political and management arrangements in place within each organisation.

- 2.2 At its 5 September 2014 meeting, the Audit, Best Value & Community Services Scrutiny Committee (ABVCSSC) received a report explaining that the County Council's audit committee responsibilities and operation are generally consistent with the latest guidance. However, one of the activities recommended in the guidance which is not currently carried out at ESCC is that *"the audit committee should report regularly on their work, and at least annually report an assessment of their performance"*.

- 2.3 This report has been produced at the request of Members in order to provide further information on how the ABVCSSC could fulfil this requirement.

**3. Methodology**

- 3.1 As part of their latest guidance, CIPFA has provided a self-assessment checklist and a matrix for evaluating the effectiveness of the audit committee. Examples of each of these are attached to this report as Appendix A and B respectively.

- 3.2 As Members will see, the checklist at Appendix A provides a simple high level assessment against best practice, whilst Appendix B enables a more in depth evaluation of an audit committee's effectiveness.

3.3 Completion of both evaluation tools by Members of ABVCSSC, supported by officers, will provide a sound basis for determining the performance and effectiveness of the Committee and identifying any areas for future improvement or development.

#### **4. Reporting**

4.1 The best practice recommendation that audit committees should report regularly on their work and, at least annually, report an assessment of their performance is intended to enable the Committee to provide an account to its stakeholders (including County Council and the public). Examples of the types of areas covered in such a report include:

- Explanation of the role of the Committee;
- Statement of any guidance that has been adopted or compliance with any statutory requirements;
- Summary of the main work of the Committee in the year;
- How the terms of reference have been met;
- Members of the Committee and relevant background;
- Training and development activity to support Members of the Committee;
- Results of any performance assessment or evaluation e.g., self-assessment, external review;
- Forward look: identifying forthcoming challenges the committee anticipates.

4.2 Clearly, the results of assessment work set out in Section 3 above, would form an important part of any such report.

#### **5. Next Steps**

5.1 The Committee is asked to consider whether it wishes to undertake a review of its effectiveness, utilising the attached checklists, and if so, whether to produce a subsequent annual report for stakeholders.

**KEVIN FOSTER**  
**Chief Operating Officer**

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Local Member: All

Background Documents:  
None

## Self-assessment of Good Practice

	Good practice questions	Yes	Partly	No
<b>Audit Committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (Applicable to local government only.)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	- good governance			
	- assurance framework			
	- internal audit			
	- external audit			
	- financial reporting			
	- risk management			
	- value for money or best value			
	- counter-fraud and corruption.			
8	Is 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?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
<b>Membership and support</b>				
12	Has an effective audit committee structure and composition of the committee been selected? This should include:			
	- separation from the executive			
	- an appropriate mix of knowledge and skills among the membership			
	- a size of committee that is not unwieldy			
	- where independent members are used, that they have been appointed using an appropriate process.			
13	Does the chair of the committee have appropriate knowledge and skills?			
14	Are arrangements in place to support the committee with			

	<b>Good practice questions</b>	<b>Yes</b>	<b>Partly</b>	<b>No</b>
	briefings and training?			
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
17	Is adequate secretariat and administrative support to the committee provided?			
<b>Effectiveness of the committee</b>				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
19	Has the committee evaluated whether and how it is adding value to the organisation?			
20	Does the committee have an action plan to improve any areas of weakness?			

## Evaluating the effectiveness of the Audit Committee

<b>Assessment key</b>	
5	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.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
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.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

<b>Areas where the audit committee can add value by supporting improvement</b>	<b>Examples of how the audit committee can add value and provide evidence of effectiveness</b>	<b>Self-evaluation, examples, areas of strength and weakness</b>	<b>Overall assessment: 5 – 1 See key above</b>
Promoting the principles of good governance and their application to decision making.	<p>Providing robust review of the AGS and the assurances underpinning it.</p> <p>Working with key members/governors to improve their understanding of the AGS and their contribution to it.</p> <p>Supporting reviews/audits of governance arrangements.</p> <p>Participating in self-assessments of governance arrangements.</p> <p>Working with partner audit committees to review governance arrangements in partnerships.</p>		
Contributing to the development of an effective control environment.	<p>Monitoring the implementation of recommendations from auditors.</p> <p>Encouraging ownership of the internal control framework by appropriate managers.</p>		

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	Raising significant concerns over controls with appropriate senior managers.		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<p>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.</p> <p>Monitoring improvements. Holding risk owners to account for major/strategic risks.</p>		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<p>Specifying its assurance needs, identifying gaps or overlaps in assurance.</p> <p>Seeking to streamline assurance gathering and reporting.</p> <p>Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.</p>		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	<p>Reviewing the audit charter and functional reporting arrangements.</p> <p>Assessing the effectiveness of internal audit arrangements and supporting improvements.</p>		
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	<p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</p> <p>Reviewing the effectiveness of performance management arrangements.</p>		
Supporting the development of robust	Ensuring that assurance on value for money		

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arrangements for ensuring value for money.	arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<p>Reviewing arrangements against the standards set out in CIPFA's Managing the Risk of Fraud (Red Book 2).</p> <p>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and governors.</p>		
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p>		

