



Audit & Governance Committee
29 May 2014

**Briefing on CIPFA's 2013 Edition of Audit Committees:
Practical Guidance for Local Authorities and Police**

Purpose of the report:

This briefing asks the committee to note the publication of CIPFA's revised and updated 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police* and recommends that the committee undertakes a self-assessment of its effectiveness and a training needs analysis.

Recommendations:

It is recommended that Audit & Governance Committee:

- i. Notes the publication of CIPFA's revised and updated 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*.
- ii. Undertakes a self-assessment and a review of its training needs.

Introduction:

1. In December 2013, the Chartered Institute of Public Finance & Accountancy (CIPFA) published a revised and updated edition of its report *Audit Committees: Practical Guidance for Local Authorities and Police*. The Guidance has been circulated to members of the Committee as background information.
2. The Guidance includes a greater focus on supporting improvement. This includes the knowledge and skills that audit committee members require and a focus on where the audit committee adds value. The publication provides practical support to those wishing to evaluate their existing committee and plan improvements. Self-assessment by the Audit & Governance Committee would complement the annual review of the effectiveness of the system of internal audit which it sponsors.
3. This report sets out the functions of audit committees according to the CIPFA Guidance, and proposes next steps for the committee in response to the Guidance.

4. The 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police* updates the core functions of the audit committee in relation to governance, risk management, internal control and audit to reflect the changes since the *Position Statement on Audit Committees in Local Government* issued in 2005. These include new legislation affecting audit committees in Wales and the police. The introduction of the Public Sector Internal Audit Standards, annual governance statements and associated guidance are also considered for their impact on the audit committee. The revised guidance also emphasises the need for audit committees to fulfil their potential effectiveness through self-assessment and identifying training need.

5. The 2013 Guidance describes Audit Committees as ‘a key component of governance’.

“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’s 2013 Position Statement on the role and functions of an audit committee is attached as Annex 1. This Statement outlines the core and potential functions of an audit committee as well as highlights the factors which promote audit committee effectiveness.

6. Effective audit committees are said to add value to their authorities by supporting improvement across a range of areas, including:

- Promoting the principles of good governance and their application to decision making.
- 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
- Aiding the achievement of the authority’s goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements.
- Supporting the development of robust arrangements for ensuring value for money.
- Helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption.
- Promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and the local community.

Assessing the committee's effectiveness

7. While an audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the local authority's business, it can be difficult to clearly identify a contribution that is characterised by 'influence' and 'support'. An assessment tool which can help to evaluate the impact of the committee is included with the Guidance and can be adapted for use by the Audit & Governance Committee.
8. The Guidance goes on to suggest that a good standard of performance against recommended practice, as well as a knowledgeable and experienced membership, are essential requirements for delivering effectiveness. The Guidance sets out an evaluation which can be adapted to support a self-assessment against recommended practice. However, it is stressed that meeting recommended practice should not be regarded as a tick-box activity and that achieving recommended practice does not mean necessarily that the committee is effective.

Training needs analysis

9. The Guidance suggests that there is a range of knowledge and experience which audit committee members can bring to the committee and help it to perform effectively. While every member of the committee could not be expected to be an expert in all areas, there are some core areas of knowledge that they would need to acquire. Regular training and briefings are recommended to help Members to keep up to date or extend their knowledge.
10. The Guidance sets out a knowledge and skills framework for audit committee members and the committee chairman. It is recommended that this framework be adapted for a training needs analysis by the committee. This would allow officers to develop an effective programme of support for the committee.

Methodology

11. If the committee agrees to conduct a self-assessment of its effectiveness and a training needs analysis, it is recommended that this takes place between the 29 May 2014 and 1 September 2014 meetings of the Committee. At this time, the existing committee will have been in place for over a year. Findings and follow-up actions can be reported to Council through the Committee's Annual Report which will be agreed on 1 December 2014.

14. It is proposed that a task group of three Members, including the Chairman and Vice-Chairman of the committee, lead this work; gathering evidence to conduct an analysis of the committee's effectiveness using assessment tools adapted from the CIPFA Guidance. This will include interviewing key officers and Members about the committee. Each member of the Committee will also be asked to complete a Knowledge & Skills Assessment based on the knowledge and skills framework in the CIPFA Guidance. This will allow officers to develop an effective training programme in collaboration with the committee's Chairman.

Conclusions:

13. In conclusion, the 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*, emphasises the need for audit committees to improve their effectiveness through self-assessment and identifying training need.

Financial and value for money implications

14. The Accounts and Audit (England) Regulations 2011 state that the Council is responsible for ensuring that financial management is adequate and effective and that the system of internal control is sound and facilitates the effective exercise of functions and the management of risk. Furthermore, Section 151 of the Local Government Act 1972 requires the Council to 'make arrangements for the proper administration of its financial affairs'.
15. The Chief Financial Officer has responsibility for discharging the requirement for sound financial management. An effective audit committee which provides support and challenge, as well as adequate and effective internal audit arrangements, enables the Chief Financial Officer to be truly effective.

Equalities and Diversity Implications

16. There are no direct equalities implications arising from this report

Risk Management Implications

17. An effective audit committee is an important source of assurance about the Council's arrangements for managing risk.

Next steps:

1. Members of the committee to complete a Knowledge & Skills Assessment.
2. A sub-group of the committee to undertake an assessment of the committee's effectiveness, with a final report being brought to the meeting of 1 September 2014.

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Sources/background papers:

- CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police (www.cipfa.org)

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