SURREY
COUNTY COUNCIL

Audit & Governance Committee
25 September 2014

Audit & Governance Committee Effectiveness Review: Final Report

Purpose of the report:

On 29 May 2014, the committee agreed that a task group should undertake a self-assessment of the committee's effectiveness in line with CIPFA's revised and updated 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*. This work is now complete and the task group's findings are brought to the committee for consideration.

Recommendations:

1. That the Committee recommends to Council that its terms of reference be amended as follows:

   i. A brief Statement of Purpose to be included: "The Council recognises the importance of undertaking scrutiny of the management of the internal control systems and the Audit & Governance Committee provides an independent and high-level focus on audit, governance and financial accounts matters".

   ii. To amend section (b) under Regulatory Framework to read: To monitor the effectiveness of the councils' anti-fraud and anti-corruption strategy, *including by reviewing the assessment of fraud risks*".

   iii. To add "To approve the Internal Audit Charter" under Audit Activity, following section (b).

   iv. To amend section (b) under Audit Activity to read: "To approve the annual Internal Audit Plan & Inspection Plan *and monitor its implementation*".

   v. To add "To provide oversight to the Annual Report of the Council" under Regulatory Framework, following section (e).

2. That a communications plan be prepared and implemented to raise the committee's profile and the profile of control systems with officers and backbench Members.

3. That work be undertaken to improve working arrangements between Audit & Governance Committee and the Select Committees.

4. That the committee develops a protocol for working with the newly established Statutory Responsibilities Network.

5. That the committee develops a map of partnership arrangements and negotiates its role alongside those arrangements with the Leader, according to their type and the risk attached.

6. That the number of committee meetings be increased to six per year, while the committee continues to adopt innovative ways of working outside formal committee meetings.

7. That the committee scrutinises the Assurance Framework upon completion of the assurance mapping process.

8. That Grant Thornton provides information on its performance to the committee, in a format agreed with the Chairman.

9. That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor.

10. That the committee consider how to develop its involvement in major projects such as the New Models of Delivery project.

11. That the Chairman discuss with the Chairman of Adult Social Care Select Committee the possibility of joint scrutiny with that Committee as to whether robust arrangements are in place to achieve savings in Adult Social Care.

12. That the committee improve its approach to ensuring that the council has effective arrangements for countering fraud and corruption risks.

13. That the full committee continues with its regular training covering all areas of its work, while individualised training programmes are agreed with Members as requested.

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 includes a greater focus on supporting improvement. This included 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.

2. On 29 May 2014, the committee agreed to undertake a self-assessment and review of the committee's training needs. The self-assessment was delegated to a task group consisting of the Chairman and Vice-Chairman of the committee (Nick Harrison and Bill Barker), and Tim Hall. This report sets out how the task group approached its work, as well as its findings and recommendations.

Methodology

Assessing the committee's effectiveness

3. 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 CIPFA Guidance and was adapted for use by the task group.

4. The CIPFA 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 includes a tool which was adapted to support an assessment of the committee against recommended practice. However, the task group was aware that good practice should not be regarded as a tick-box activity and that achieving recommended practice does not mean necessarily that the committee is effective.

5. To gather evidence in order to complete the assessments of effectiveness and good practice, the task group undertook an online survey of senior Members and officers. It also interviewed the following:

    - David Hodge (Leader of the Council and Cabinet Lead for Statutory Responsibilities)
    - David McNulty (Chief Executive)
    - Denise Le Gal (Cabinet Member for Business Services and Cabinet Lead for New Models of Delivery)
    - Sheila Little (Director of Finance)
    - Kevin Kilburn (Deputy Chief Finance Officer)
    - Nikki O'Connor (Finance Manager – Assets & Accounting)
    - Phil Triggs (Strategic Manager – Pensions & Treasury)
    - Sue Lewry-Jones (Chief Internal Auditor)
    - Internal Audit Team
    - Andy Mack (Grant Thornton)
    - Kathryn Sharp (Grant Thornton)
    - Cath Edwards (Risk & Governance Manager)
    - Ann Charlton (Director of Legal and Democratic Services; Monitoring Officer)
    - Nick Skellett (Chairman of Council Overview and Scrutiny Committee)
    - Eber Kington (Vice-Chairman of Council Overview and Scrutiny Committee)
    - Bryan Searle (Senior Manager Scrutiny & Appeals)

6. The task group also compared the committee's terms of reference with CIPFA's recommended terms of reference for local authority audit committees to assess if any changes should be made.

Training needs analysis

7.   The CIPFA Guidance sets out a knowledge and skills framework for audit committee members and the committee chairman. It suggests that this can be used to guide Members on their training needs. It helpfully distinguishes between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to a committee. Each member of the committee was given a Knowledge and Skills Assessment Survey based on CIPFA's knowledge and skills framework to complete. The findings from this survey were used to undertake a training needs analysis.

Self-assessment of good practice

8.   The task group undertook a comparison of the committee's current terms of reference against CIPFA's suggested terms of reference. This is attached as **Annex 1**. Overall the task group was satisfied with the committee's current terms of reference, which it felt was a concise reflection of CIPFA's Position Statement on Audit Committees in Local Authorities. However, it recommends a small number of additions which explicitly reflect work that the committee already undertakes and emphasises the role of the committee as a key component of governance within the Council.

<div style="border:1px solid black; padding:10px;">

Recommendation 1

That the Committee recommends to Council that its terms of reference be amended as follows:

i.   A brief Statement of Purpose to be included: "The Council recognises the importance of undertaking scrutiny of the management of the internal control systems and the Audit & Governance Committee provides an independent and high-level focus on audit, governance and financial accounts matters".

ii. To amend section (b) under Regulatory Framework to read: To monitor the effectiveness of the councils' anti-fraud and anti-corruption strategy, *including by reviewing the assessment of fraud risks*".

iii. To add "To approve the Internal Audit Charter" under Audit Activity, following section (b).

iv. To amend section (b) under Audit Activity to read: "To approve the annual Internal Audit Plan & Inspection Plan *and monitor its implementation*".

v.   To add "To provide oversight to the Annual Report of the Council" under Regulatory Framework, following section (e).

</div>

9. The task group used the evidence that it collected to complete its assessment of the committee against recommended practice (attached as **Annex 2**). It agreed that there was evidence of a good standard of performance against the recommended practice by the committee and by the council in its support for an independent and dedicated audit committee. The task group did identify a small number of areas for further development.

10. The committee has good relationships with key Members and officers and also engages with the rest of the Council through an Annual Report to Council, contributing to a quarterly newsletter on regulatory committees, and regularly referring matters and taking reports on issues to other committees and the Council. However, the task group received suggestions that more could be done to raise the committee's profile with officers and backbench Members, eg through publishing an annual article on S-Net.

11. There was some confusion expressed about the boundaries between Audit & Governance Committee and the Select Committees. While a joined-up approach to audit in particular has been agreed and implemented by Audit & Governance Committee and Council Overview & Scrutiny Committee and the Chairman of Audit & Governance Committee keeps an oversight of what is happening on Select Committees in order to avoid duplication, officers consistently raised a lack of clarity over the blurring of responsibilities as an issue.

12. It was also felt generally that Council did not challenge Audit & Governance Committee on its performance and so it was questioned whether the arrangements to hold the committee to account for its performance were operating effectively. However, minimal challenge could also be due to endorsement of the committee's work or lack of knowledge about the committee. The task group felt that these issues could be addressed through the development of a communications plan for the committee and further work to improve joint working between Audit & Governance Committee and the Select Committees.

Recommendation 2

That a communications plan be prepared and implemented to raise the committee's profile and the profile of control systems with officers and backbench Members.

Recommendation 3

That work be undertaken to improve joint working arrangements between Audit & Governance Committee and the Select Committees.

10

Evaluating the effectiveness of the audit committee

13. The task group also used the evidence it had collected to complete its evaluation of the committee's effectiveness using the assessment tool within the CIPFA Guidance (**attached as Annex 3**). The task group found clear evidence that the committee is actively and effectively supporting improvement within the Council, although it felt that there were always opportunities for the committee to do more.

Promoting the principles of good governance

14. The task group found clear evidence that the committee promotes the principles of good governance and their application to decision making. This includes the work it does in reviewing the Annual Governance Statement (AGS), reviewing the assurances underpinning the Statement and providing strong challenge on governance issues, as well as the way it models effective Member/officer working relationships, effective values and behaviours, and proper decision-making processes.

15. Feedback included ideas for how the committee could further improve understanding of governance, for example through being a visible leader on governance and by holding training or workshops on governance for senior Members and officers. This could be addressed through the development of a communications plan for the committee (see recommendation 2).

16. During the course of the review, the task group received information about the establishment of a Statutory Responsibilities Network for the Council. The task group felt that it would be necessary to understand how to use or work with the Statutory Responsibilities Network on aspects of its work, for example it was suggested that the AGS may in future be produced by the Network. It may be helpful to hold a joint meeting of the Network with the committee to produce the AGS.

17. Partnership governance was highlighted by many as a priority for the Audit & Governance Committee as Surrey County Council continues to develop a wide range of partnership arrangements. CIPFA states "Ensuring the adequacy of governance and risk management over such arrangements can be complicated but is very important as accountability for performance and stewardship of the public funds involved remains with the authority". CIPFA goes on to state that the audit committee's role should be clearly defined, and can include consideration of the assurance available on whether the partnership arrangements are satisfactorily established and are operating effectively, as well as reviewing what arrangements have been put in place to maintain accountability to stakeholders. The audit committee may also choose to develop its own partnership arrangements with the audit committees of partner organisations. Some examples raised during witness sessions of partnerships which the committee may wish to receive assurance on include the Emergency Service Collaboration, health and social care arrangements, and the new trading companies.

Recommendation 4

That the committee develops a protocol for working with the newly established Statutory Responsibilities Network.

Recommendation 5

That the committee develops a map of partnership arrangements and negotiates its role alongside those arrangements with the Leader, according to their type and the risk attached.

Effective control environment

18. The Audit & Governance Committee actively supports improvement within the Council through its strong support of audit processes. In particular, witnesses informed the task group that the committee's willingness to call in officers with regard to an audit and to monitor implementation of Management Action Plans had contributed to audit findings and recommendations being taken more seriously.

19. The task group discussed whether more frequent meetings of the committee would allow for more timely consideration of audit reports. A further benefit of this would be to spread the increasing workload more thinly. At present, there are five meetings scheduled for this year and next year. A review of previous years indicates that the number of meetings has fallen from a high of eight per year. However, the committee does also usefully employ training sessions, workshops and task group projects and it is recommended that the committee continues to adopt innovative ways of working.

20. The task group asked witnesses how the committee could encourage ownership of the internal control framework. One response was that the Chairman could extend his cycle of informal meetings with key Members and officers to the Strategic Directors. This would support the Chief Internal Auditor in her own efforts to encourage wider ownership of the internal control framework. This could be included in the committee's communications plan (see recommendation 2).

Recommendation 6

That the number of committee meetings be increased to six per year, while the committee continues to adopt innovative ways of working outside formal committee meetings.

Arrangements for the governance of risk and managing risk

21. The task group received commendation for the committee's support for risk management. It was suggested that this had contributed to risk management being taken more seriously across the Council, with more effective mechanisms put in place.

Adequacy of the assurance framework

22. While the committee receives a wide range of assurances, it is yet to specify its assurance needs and identify gaps or overlaps in assurance. The Chief Internal Auditor is currently undertaking an assurance mapping process which the committee will need to scrutinise in due course.

23. As mentioned above, the task group received information about the establishment of the Statutory Responsibilities Network. The committee will need to understand how to use or work with the Network to determine the adequacy of the assurance framework. It was also suggested that the committee looks at the effectiveness of the new Network after six months in operation. This can be addressed through the development of a protocol for working with the Statutory Responsibilities Network (see recommendation 4).

24. In discussions with Grant Thornton representatives, the committee was offered the inclusion of performance indicators in future reports. This would enable the committee to scrutinise the effectiveness of external audit.

Recommendation 7

That the committee scrutinises the Assurance Framework upon completion of the assurance mapping process.

Recommendation 8

That Grant Thornton provides information on its performance to the committee, in a format agreed with the Chairman.

Supporting the quality of Internal Audit activity

25. The committee has a strong and supportive relationship with Internal Audit, which includes sponsoring the annual review of effectiveness of internal audit. The Chief Internal Auditor has free and unfettered access to the chairman and vice-chairman of the committee and is also available to any other member of the committee. The committee meets informally with the Internal Audit team every six months. In order to tap the knowledge and skills of Internal Audit further it was suggested that the committee could receive informal briefings on service areas including all relevant audit findings so that it can develop a full picture of the situation. This would also be open to the relevant Select Committee and included within the proposed communications plan (see recommendation 2).

26. CIPFA suggests that to ensure the organisational independence of internal audit, the audit committee could consider the appointment and removal of the head of internal audit. The task group and several witnesses agreed that the Audit & Governance Committee is an important check on the independence of the Chief Internal Auditor. The Chairman of the committee already contributes to the annual appraisal of the Chief Internal Auditor and it was suggested that the Chairman should be consulted in the event of appointing to or removing from the position.

27. The task group received some feedback which suggested that the committee's relationship with Internal Audit was too close. A lack of independence from Internal Audit could affect the committee's ability to challenge the service. However, the task group felt that scrutiny of Internal Audit as a service was a role for Council Overview and Scrutiny Committee and that on balance a good and supportive relationship between Audit & Governance Committee and Internal Audit was of benefit to good governance. It was suggested that in future if a specific audit report is to be considered in depth, the auditor who led on the work should be invited to the committee meeting alongside the responsible officers who signed off on the Management Action Plan.

Recommendation 9

That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor.

Supporting the Council's goals and objectives

28. CIPFA suggests that audit committees can add value by aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements. The Audit & Governance Committee has taken an interest in the governance and assurance arrangements of major projects and programmes eg the development of an Investment Panel for the Council and the governance of Babcock 4S. It will need to consider its role in other major projects such as the New Models of Delivery project.

29. The task group received feedback that the committee is effective in reviewing assurances underpinning governance at the council. However, it was suggested that the committee could more explicitly seek assurances that council priorities (eg as detailed in the Corporate Strategy) and associated risks are being properly managed. The task group understood that the Internal Audit Plan does link to the Corporate Strategy but that the committee will also have an opportunity to scrutinise the Assurance Framework upon completion of the assurance mapping process to check for any gaps in assurance and to specify any further assurance needs (see recommendation 7).

Recommendation 10

That the committee consider how to develop its involvement in major projects such as the New Models of Delivery project.

Development of robust arrangements for ensuring value for money

30. The committee receives assurance of the development of robust arrangements for ensuring value for money from internal and external audit. The committee will be able to scrutinise the assurance mapping being undertaken by the Chief Internal Auditor to establish if there are any gaps in the assurance received on value for money (see recommendation 7).

31. The Leader of the Council suggested that the committee could join with Adult Social Care Select Committee in the autumn to scrutinise whether robust arrangements are in place to achieve savings in Adult Social Care.

Recommendation 11

That the Chairman discuss with the Chairman of Adult Social Care Select Committee the possibility of joint scrutiny with that Committee as to whether robust arrangements are in place to achieve savings in Adult Social Care.

Arrangements for countering fraud and corruption risks

32. The task group found clear evidence that the committee helps the authority to implement effective arrangements for countering fraud and corruption risks. The CIPFA Guidance recommends that audit committees review the counter-fraud strategy against recommended practices eg Managing the Risk of Fraud: Actions to Counter Fraud and Corruption (CIPFA) 2008; and Fighting Fraud Locally: The Local Government Fraud Strategy (National Fraud Authority) 2011. Officers have confirmed that they do this regularly and that further information on this review against recommended practices could be provided to the committee. CIPFA also suggests that audit committees review fraud risks and the effectiveness of the organisation's strategy to address those risks. Officers have confirmed that a thorough review of fraud risk would be taking place during 2014/15 and that the committee could be kept appraised of progress.

Recommendation 12

That the committee improve its approach to ensuring that the council has effective arrangements for countering fraud and corruption risks.

Transparency and accountability

33. The committee models transparency and accountability through holding its meetings in public and reporting on its activities on a regular basis. The committee is also supporting the ongoing process to simplify and streamline the accounts.

34. The task group felt that the committee could develop its approach further by reviewing whether decision making through partnership organisations remains transparent and publicly accessible where the council is a stakeholder and puts money into the organisation. This would be taken forward through the recommended negotiation with the Leader over the committee's role in partnership arrangements (see recommendation 5).

Training needs analysis

---

35. All six members of the Audit & Governance Committee completed a Knowledge and Skills survey, based on CIPFA's knowledge and skills framework. The responses were collated and analysed.

36. By all completing the knowledge and skills survey, the members of the Audit & Governance Committee have shown themselves to be willing to review their knowledge and skills in order to ensure that the committee is effective as it can be. The analysis confirms that the committee has a good level of skills and knowledge within its membership. It is recommended that the full committee continues with regular training covering all areas of its work so that it remains up-to-date. It is also recommended that the individualised training programmes be agreed with Members as requested.

Recommendation 13

That the full committee continues with its regular training covering all areas of its work, while individualised training programmes are agreed with Members as requested.

Conclusions:

---

37. The task group established to undertake a self-assessment of the Audit & Governance Committee's effectiveness in line with CIPFA Guidance has completed its evidence gathering and analysis and presents its findings and recommendations to the committee. The committee has been found to have a knowledgeable and balanced membership, a high degree of performance against CIPFA's good practice principles and is generally effective in supporting improvements within the Council. A number of recommendations have been proposed to assist the committee to keep improving and adapt to the changing local government environment.

Financial and value for money implications

38. An effective Audit & Governance Committee will seek assurance of the development of robust arrangements for ensuring value for money.

Equalities and Diversity Implications

39. There are no direct equalities implications but any actions taken need to be consistent with the council's policies and procedures.

Risk Management Implications

40. An effective Audit & Governance Committee will seek assurance that there are robust arrangements for the governance of risk and for risk management.

Next steps:

The committee will implement approved recommendations and review progress through its Annual Report.

Report contact: Nick Harrison (Chairman)
T: 01737 371908; E: nicholas.harrison@surreycc.gov.uk

Cheryl Hardman (Regulatory Committee Manager)
T: 020 8541 9075; E: cherylh@surreycc.gov.uk

10

Sources/background papers:
- CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police