

Chief Executive, and Chair of Governance and Ethics Committee

**Governance and Ethics Committee – Review of
Effectiveness**

February 2020

Draft Report

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1. Executive Summary

- 1.1. The effective operation of the Audit Committee in local government is a key element of the governance framework.
- 1.2. The CIPFA best practice document “Audit Committees: Practical Guidance for Local Authorities and Police” was published in spring 2018, and the document highlights a number of suggestions for maximising the effectiveness of local authority audit committees. The document includes a Position Statement which gives a detailed view of the key roles and responsibilities, and covers such areas as:
 - Purpose
 - Core Functions
 - Independence and Accountability
 - Membership
 - Developing effectiveness

This report has interpreted the guidance and provided a synopsis of the key points. It is however recommended that members of the Committee read the full document.
- 1.3. This report considers how West Berkshire’s Governance and Ethics Committee might approach maximising its own effectiveness by implementing key points of the guidance. This is informed by the survey of Committee members, to obtain their views on the effectiveness of the Committee, and any perceived obstacles.
- 1.4. The report concludes by recommending an Action Plan for the Committee’s approval and implementation, with the objective of improving the effective operation of the Committee on an ongoing basis.

2. Introduction

- 2.1. During 2018 an external assessment was carried out of the effectiveness of West Berkshire Council’s Internal Audit (IA) service, and its conformance with Public Sector Internal Audit Standards (PSIAS). The resulting report included a suggestion that IA should consider undertaking a review of remit and effectiveness of the Council’s Governance and Ethics Committee, using the checklist from the CIPFA “Audit Committees Practical Guidance for Local Authorities and Police” (2018).
- 2.2. The PSIAS report recommendations were agreed by the Governance and Ethics Committee in the autumn of 2018, and as a result the Audit Plan for 2019/20 included an allocation for a review of the effectiveness of the Committee.
- 2.3. Our audit does not provide a formal opinion on controls, but concludes on the extent to which the Governance and Ethics Committee operates in accordance with published guidance; we also summarise the feedback obtained from members of the Committee via survey.

3. Assessment against Good Practice questionnaire

- 3.1. IA completed the 'Self-assessment of good practice' questionnaire which forms an appendix to the CIPFA "Audit Committees: Practical Guidance for Local Authorities and Police" (Refer to appendix 1). The questionnaire is primarily factual, and IA's attendance at Committee puts IA in a good position to complete the questionnaire in an objective manner. We acknowledge that the Governance and Ethics Committee includes the functions of the Standards Committee in addition to Audit Committee responsibilities. This accords with a core function of an audit committee, as set out in the guidance.
- 3.3. The questionnaire responses showed that the Committee conformed or partly conformed with two thirds of the good practice questions; whilst one third is not currently conforming, these being broadly themed around self-evaluation, reporting and accountability, and obtaining feedback on its performance. It may be possible to use this assessment as a benchmark against which the Committee's effectiveness could be measured, by repeating the exercise on an annual basis, with comparison of the Committee's development over time.
- 3.4. We found that there is scope for improvement in the way the Committee understands and reports on its own activity, for example: refreshing its Terms of Reference; understanding members' relevant skills and knowledge; undertaking training to improve the Committee's ability to challenge and assess key assurance reports. The Committee should also be able to assess its own activity and performance, and produce at least an annual report on this.
- 3.5 For context, the CIPFA survey of local authority audit committees 2016 reported that:
- 50% of local authorities have conducted a self-evaluation; 35% had produced an annual report explaining their work which was also available to the public; 'limited knowledge or experience of members' was considered the most important barrier to improvement of effectiveness (view of 39% of local authority Heads of Internal audit; and 38% of Committee chairs);
 - the median size of a local authority audit committee was found to have increased to nine, the large number promotes political balance but was also thought to make it more difficult to appoint members with the right knowledge and interest – in the private sector audit committees are typically 3-4 members;
 - 39% of local authority committees included at least one co-opted independent member to increase levels of knowledge and demonstrate openness and challenge – this figure had increased since the previous survey in 2011;

- 94% of respondents said their committee's terms of reference were aligned or strongly aligned to CIPFA's position statement; 89% of committees reviewed the effectiveness of risk management arrangements; 79% of committees evaluated the authority's counter fraud strategy and performance against the strategy; 41% undertook reviews of best value/VFM arrangements; 23% of committees evaluated assurance statements on the Council's partnerships/ oversight of partnership governance.

4. Survey Feedback

- 4.1. A survey of all members of the Audit and Governance Committee was undertaken during December 2019. The survey questions were derived from CIPFA guidance and reports. The objective of this exercise was to establish the views of the members of the effectiveness of the Committee's operation.
- 4.2. The response rate was rather low; with completed questionnaires only having been received from 4 members of the Committee (two of whom are Council members, the other two being parish council co-optees). One further member contacted Internal Audit to explain why they would not be submitting a formal questionnaire response.
- 4.3. Although the response rate was too low to obtain a full picture of members views, we have identified areas for improvement by responses to the following questions:
 - Q1. How well do you consider the Committee is currently able to achieve its roles and functions?
 - Q10. Are there any areas in which you felt you would benefit from further training?
 - Q14. Do you consider that the Committee is provided with sufficient information to effectively challenge the work undertaken by Internal Audit, External Audit and the Council's risk management processes in order to effectively discharge its role as defined in the ToR for the Committee?
 - Q15. Do you consider that the committee is given sight of adequate information to ensure that remedial action is taken to address issues identified by Internal Audit, External Audit and the Risk Management process?
- 4.4. Whilst we acknowledge that there was not unanimous support amongst the 4 respondents for further training, the comments obtained corroborated the view that continued training and development of members of the Committee would be beneficial, so that all members, whether permanent, substitute, new or existing, have a grounding in the role and responsibilities of the Committee and their role in contributing to this. In particular this would extend to ensuring there is sufficient understanding of the sources and processes of assurance, the meaning/ impact of the reports presented to them, and how best to support and challenge those tasked with producing this information.

5. Recommended Actions

- 5.1. The following actions are suggested for the approval and implementation of the Committee. Discussion needs to take place at Committee as well as between the Committee Chair and the Chief Executive.
1. Review and consider adoption of the suggested Terms of Reference attached at Appendix C of this report, including clear reporting lines and an explanation of the accountability of the Committee. Terms of Reference should be shared with new members upon appointment.
 2. Undertake an evaluation of the skills and competencies of all members of the Committee using the suggested framework from the guidance (which is provided at Appendix C of the guidance document). Consider the most effective size for the Committee, if knowledge and interest are in short supply then a larger committee may not be effective. Consider co-opting an independent member with relevant skills / experience.
 3. Use the outcomes of the evaluation of skills to inform a mandatory programme of training and development of members, commencing with general induction training for all members on the content of the guidance and the key roles and responsibilities of members, and then developing regular training sessions to assist members in understanding their role and developing skills over time. This may include coverage of: sources of assurance, and assurance processes; external audit cycle and threats to an effective external audit / understanding the nature and risk of the key judgements made by external auditors; risk management processes and risk appetite.
 4. Consider supporting awareness sessions to reflect the role and responsibilities of the Committee as suggested by the guidance, and ensuring that all Council members, even those who do not serve on the Committee, fully understand its role, purpose and importance.
 5. Undertake annual and ongoing self-review by the Committee of its own effectiveness, using a tool such as the recent questionnaire completed by IA as part of this review. Report the results to the Committee and develop appropriate actions to address areas for development.
 6. Produce an annual report summarising the work undertaken by the Committee and reflecting on its own performance and development activities, and consider options for the distribution and publication of this report.
 7. Review specific areas highlighted by the IA response to the questionnaire (appendix A of this report):
 - (i) consider the means by which feedback is obtained from senior officers in respect of IA, to support the IA QAIP. This may be done

by conducting/sponsoring an annual survey of Heads of Service; and also by engaging with more senior officers.

- (ii) consider how the Committee will assess and challenge the effectiveness of the Council's risk management framework and arrangements. This may be done by reviewing changes in the risk profile (top risks) since the previous meeting, challenging timeliness in setting and completing risk mitigation actions, and also in challenging risk appetite by engaging with relevant senior officers.
- (iii) consider how the Committee will assess and challenge anti-fraud arrangements (possibly as part of the review of risk management), and how they wish to be advised of actual, suspected or alleged fraudulent activity. This may be done by receiving and reviewing formal progress reports from the Internal Audit Manager in respect of the counter fraud plan, including investigation work.

6. Appendix A: Assessment against good practice questionnaire

Good Practice Questions	Yes	Partly	No	Comments
Audit Committee purpose and governance				
1. Does the authority have a dedicated audit committee?	X			
2. Does the audit committee report directly to full council?		X		In principle the audit committee reports to full Council, however in the absence of an annual plan there is no reporting/ information flow to or from full Council. Reporting lines may be unclear, which potentially undermines the effectiveness of the Committee in raising issues and making recommendations. (Action 5.1.6)
3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's position statement?		X		Current Terms of Reference broadly cover the key expected functions, although the purpose is not articulated. The ToR should be updated in the light of the position statement and reflect actual activities of the Committee. Copy of ToR should be shared with new members upon appointment. (Action 5.1.1)
4. Is the role and purpose of the audit committee understood and accepted across the authority?		X		This could be more clearly articulated and promoted across the authority. (Action 5.1.4)
5. Does the audit committee provide support to the authority in meeting the requirements of good governance?	X			
6. Are the arrangements to hold the committee to account for its performance operating satisfactorily?			X	There is no self-assessment/ reporting (Action 5.1.6)

Good Practice Questions	Yes	Partly	No	Comments
Functions of the Committee				
7. Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement:	<i>Where marked as 'yes' below but with recommended actions, the areas are included in the current ToR but there is scope for improvement in effectiveness.</i>			
- good governance	X			
- assurance framework, including partnerships and collaboration arrangements		X		It is important that the Committee understands its sources of assurance over the control environment (Action 5.1.3), including partnership arrangements which are not currently in the ToR (Action 5.1.1)
- internal audit	X			The Committee may want to consider the means by which feedback is obtained for Internal Audit from Heads of Service to support the IA QAIP, as the current method of issuing surveys with final audit reports does not result in a high response rate. (Action 5.1.7)
- external audit	X			The Committee may benefit from a greater understanding of the annual external audit cycle and audit process, and understanding the nature of potential obstacles to an effective external audit, such that the Committee is able to effectively challenge and support the process. (Action 5.1.3)
- financial reporting	X			
- risk management	X			The Committee may want to consider how they assess and challenge the effectiveness of the Council's risk

Good Practice Questions	Yes	Partly	No	Comments
				management framework and arrangements; we note that assurance statements are no longer being produced by Heads of Service. There may be some benefit in reviewing the timeliness in setting and completing actions, and also in challenging risk appetite. (Action 5.1.7)
- value for money or best value			X	Not currently included in the Committee's ToR, although noted this is in scope for external audit. (Action 5.1.1)
- counter fraud and corruption	X			Operationally this is work in progress with the recent introduction of revised policies and plans to implement staff training, and a year-end report linking to assurance work. The Committee may wish to consider how they plan to assess and challenge anti-fraud arrangements (possibly as part of the review of risk management), and how they wish to be advised of actual, suspected or alleged fraudulent activity. (Action 5.1.7)
- supporting the ethical framework	X			
8. Is an evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			X	The Committee does not currently evaluate its activities and/or performance. (Action 5.1.5)
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? The wider areas include: - Considering governance, risk or control matters at the request of		X		As part of the review of the Committee's Terms of Reference, the roles and responsibilities of the Committee should be reviewed. (Action 5.1.1)

Good Practice Questions	Yes	Partly	No	Comments
<p>other committees or statutory officers.</p> <ul style="list-style-type: none"> - Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values. - Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice. - Providing oversight of other public reports, such as the annual report. 				
10. Where coverage of core areas has been found to be limited, are plans in place to address this?			X	An assessment/ evaluation has not been considered by the Committee (Action 5.1.5)
11. Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	X			
<p>12. Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> - Separation from the executive - An appropriate mix of knowledge and skills among the membership - A size of committee that is not unwieldy - Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) 		X		<p>The Committee should undertake an assessment of knowledge and skills, as per the 'Guidance' (Action 5.1.2)</p> <p>The Committee should also consider engaging an independent member/ professional (Action 5.1.2)</p>
13. Have independent members' appointment to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			X	As above, the Committee should consider co-opting an independent, member / professional (Action 5.1.3)
14. Does the chair of the committee have appropriate knowledge and skills?	X			
15. Are arrangements in place to support the committee with briefings and training?		X		The Committee members may benefit from additional training in how to understand the potential impact of the reports and issues that are being reported to them, in order to challenge and assess more effectively. A clear understanding of what

Good Practice Questions	Yes	Partly	No	Comments
				could go wrong within risk management, assurance and governance processes would be beneficial. Briefings on recommended processes would also help. (Action 5.1.3)
16. Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			X	As per Q12 above (Action 5.1.2)
17. Does the committee have good working relationships with key people and organisations, including external audit, internal audit, and the CFO/CEO?	X			
18. Is adequate secretariat and administrative support to the committee provided?	X			
Effectiveness of the Committee				
19. Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			X	This is dependent on the Committee setting out a plan for its work and conducting self-assessment and reporting. (Action 5.1.5)
20. Are meetings effective, with a good level of discussion and engagement from all the members?		X		Level of discussion varies depending on knowledge / understanding of the subject. (Action 5.1.3)
21. Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	X			
22. Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?		X		The proposed training would assist Committee members in making independent recommendations when they challenge processes and outcomes (Action 5.1.3)
23. Has the committee evaluated whether and how it is adding value to the organisation?			X	This is dependent on the Committee setting out a plan for its work and conducting self-assessment and reporting. (Action 5.1.5)

Good Practice Questions	Yes	Partly	No	Comments
24. Does the committee have an action plan to improve any areas of weakness?			X	This is dependent on the Committee setting out a plan for its work and conducting self-assessment and reporting. (Action 5.1.5)
25. Does the committee publish an annual report to account for its performance and explain its work?			X	The Committee should produce an annual report of its activities, and consider making this available to the public. (Action 5.1.6)

7. Appendix B: Survey results

No	Question	Total respondents = 4
1	How well do you consider the Committee is currently able to achieve the roles and functions [set out in the current ToR] (where 0 is not at all and 5 is very well)?	score 3 = 1; score 4 = 2; score 5 = 1
2	Do you consider the Committee is sufficiently independent / free from political bias or other influence e.g. Executive?	yes = 4
3	Do you consider the Committee is sufficiently independent from duties on other key committees?	yes = 3; don't know = 1
4	Do you consider that there are too many/ too few members, to carry out effective assessments and reach conclusions?	about right = 2; too few = 1; no response = 1
5	Do you consider there is sufficient discussion of agenda items after which prompt decisions are made?	yes = 3; no response = 1
6	Do the meetings cover all items on the agenda?	yes = 4
7	Do you consider that meetings are undertaken in an open/candid manner where members can fully express their views?	yes = 4
8	Was there any induction for new members / returning members?	yes = 3; no = 1
9	Do you consider you have received sufficient training to carry out your responsibilities?	yes = 2; no = 2
10	Are there any areas in which you feel you would benefit from further training? (For example: the role and responsibility of the Committee / financial reporting / the external audit engagement and process / the internal audit process and reporting / risk governance / anti-fraud arrangements).	yes = 3; no = 1
11	Are meetings held sufficiently often/ too frequent?	about right = 2; too infrequent = 2
12	Do the external auditors attend when required?	yes = 4
13	Do you consider that Executive and Senior Managers attend meetings upon request, to respond to matters of concern?	yes = 4
14	Do you consider that the Committee is provided with sufficient information to effectively challenge the work undertaken by Internal Audit, External Audit and the Council's risk management processes in order to effectively discharge its role as defined in the ToR for the Committee?	yes = 2; no = 1; don't know = 1
15	Do you consider that the committee is given sight of adequate information to ensure that remedial action is taken to address issues identified by Internal Audit, External Audit and the Risk Management process?	yes = 1; no = 2; don't know = 1

8. **Appendix C: Suggested Terms of Reference (extracted verbatim from the Practical Guidance)**

Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of purpose

Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.

To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

To monitor the effective development and operation of risk management in the council.

To monitor progress in addressing risk-related issues reported to the committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- b) regular reports on the results of the QAIP
- c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.

To consider the head of internal audit's annual report:

- a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
- b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.

To consider summaries of specific internal audit reports as requested.

To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).

To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

To publish an annual report on the work of the committee.

9. Appendix D - Key Features of the Guidance

Importance of the Audit Committee

- 9.1. The guidance begins by setting out the importance of Audit Committees in satisfying the wider requirements for sound financial management and internal control in local authorities as detailed in legislation. 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, Section 151 of the Local Government Act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs”.
- 9.2. In addition, there has been a number of developments within the sector that have emphasised the role of the Audit Committee further:
- Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN
 - Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)
 - Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).
- 9.3. Whilst the primary responsibility for the effective operation of these arrangements rests with the Chief Executive Officer, the role of the Audit Committee in providing oversight, challenge and assurance is crucial in supporting this.
- 9.4. The guidance document sets out a Position Statement for Audit Committees in Local Government (and Police). This details the role and purpose of the Committee.
- 9.5. Key to this is statement that:
“Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives

- a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are: promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants, an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- unbiased attitudes – treating auditors, the executive and management fairly
- the ability to challenge the executive and senior managers when required.”

The remainder of the document explains in detail how to achieve the objectives set out within the Position Statement.

Purpose

- 9.6. The guidance highlights the key areas where the Committee can influence and add value:
- “promoting the principles of good governance and their application to decision making
 - raising awareness of the need for sound internal control and contributing to the development of an effective control environment
 - supporting 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 reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
 - 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”.

Core Functions

- 9.7. The document outlines the each of the core functions of the Committee:

Annual Governance Statement (AGS)

An effective Audit Committee supports the development of a robust governance framework, which is maintained throughout the year, not just at the time of the production of the AGS. This is important so that the Council is able to demonstrate compliance with the Delivering Good Governance in Local Government Framework and Guidance Note. It states:

“The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning) over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee’s review of other agenda items.”

Internal Audit

The Audit Committee has a key role to play in providing assurance of the effectiveness of the Council’s internal audit arrangements, in accordance with the Public Sector Internal Audit Standards. The role of the audit committee in relation to internal audit is to:

- oversee its independence, objectivity, performance and professionalism
- support the effectiveness of the internal audit process
- promote the effective use of internal audit within the assurance framework.

Risk Management

The guidance sets out the three main areas of the role of the audit committee in relation to risk management:

- To provide assurance over the governance of risk, and ensuring there is a consistently applied framework for risk management across the Council. This includes overseeing the authority’s risk management policy and its implementation.
- Monitoring and review of the Council’s risk profile and the effectiveness of risk management actions by: reviewing arrangements to co-ordinate and lead risk management.
- Monitoring the effectiveness of risk management arrangements in operation by reviewing assessments of these arrangements and the progress being made on implementing associated recommendations.

Assurance Frameworks and Planning

The document highlights the importance of the Committee understanding its sources of assurance, so that it is able to evaluate the effectiveness of the control environment for the AGS.

Value for Money

The document summarises the role as focussing on the Council's approach to value for money is effective and in line with governance objectives, and also to focus on the statutory value for money conclusion given annually by the external auditor.

Fraud and Corruption

The guidance highlights the role of having oversight of the authority's counter fraud plans, resources and their effectiveness. This includes:

- "reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community
- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses."

External Audit

The guidance highlights the key roles of appointment of external auditors, monitoring the external audit process and supporting independence, receiving and considering the reports of external audit, and supporting the quality and effectiveness of external audit.

Financial Reporting

The Committee has an important role in reviewing the statement of accounts so as to fit in with statutory deadlines and the Statement of Recommended Practice (SORP). This role could include the review of the narrative report so as to gain assurance on the effectiveness of financial management, reviewing trends and understanding what these might mean for future years, and to support the completion of the external audit.

Partnership/Collaboration Governance

This area relates to the need for the Committee to provide assurance that the Council's key partnerships and collaborations are operating effectively and within robust governance arrangements. This is key to reflecting in the AGS how the Council's

partners have contributed to the achievement of objectives.

Governance and Ethics

The Committee has an important responsibility in demonstrating and supporting the application of the Seven Principles of Public Life, otherwise known as the Nolan principles, in ensuring that standards of conduct are upheld and members and officers are acting in the public interest. This is pivotal both to the AGS (being one of its Core Principles) but also to providing assurance that the Council discharges its duties in the best interests of its residents.

Independence and Accountability

- 9.8. It is a key feature that the Audit Committee is operationally independent, and therefore, it is usually best practice to ensure that it reports straight to the executive.
- 9.9. The guidance also picks out the fact that the Audit Committee is not an executive body, and seeks to influence and recommend decisions for approval rather than engage in direct policy making.
- 9.10. One of the key principles is accountability – both in relation to holding the organisation to account, supporting accountability to stakeholders, and holding the Committee itself to account.

Membership

- 9.11. The guidance concludes that in terms of size and composition of the Audit Committee, arrangements vary widely. However, political balance is a common best practice feature, as are lay members. The guidance discusses the potential benefits and drawbacks of the presence of lay members, but it is acknowledged that suitably skilled and experienced members can bring a huge benefit to the Committee. It can be difficult recruiting such members, however.
- 9.12. The issue of skills and competencies of all members of the Committee is particularly emphasised, and whilst it is acknowledged no single member will possess all of the skills deemed necessary, Appendix C of the guidance document sets out a skills framework for consideration. It is also clear that a skilled and experienced Chair brings a great deal of benefit to the Committee's operation.

Developing Effectiveness

- 9.13. The guidance suggests a number of key activities for the development of the Committee:

- Evaluation of the skills and competencies of members and the use of effective and regular training to assist members in understanding their role and developing skills over time.
- Consideration of the membership of the Committee and particularly the inclusion of lay members.
- Development of the Terms of Reference of the Committee to reflect the role and responsibilities of the Committee as suggested by the guidance and ensuring that all members, even those who do not serve on the Committee
- Annual and ongoing self-review by the Committee of its own effectiveness, using a tool such as the recent survey undertaken with the Committee members.
- The production of an annual report summarising the work undertaken by the Committee and reflecting on its own performance and areas for development.

9.14. These activities form the basis for the actions suggested for approval and implementation by West Berkshire's Governance and Ethics Committee.

The full document "Audit Committees: Practical Guidance for Local Authorities and Police" is available from Internal Audit.

It is recommended that members of the Committee read the document in full and utilise the Appendices as guidance in implementing the recommended actions.