

Title of Report:	Cipfa Guidance on the role of Audit Committees	Item 8
Report to be considered by:	Governance and Audit Committee	
Forward Plan Ref:		

Corporate Plan Priority:	D4 – Stronger governance
The proposals contained in this report will help to achieve the above Corporate Plan priority by: Reviewing the role and work of this committee in the light of newly published guidance from CIPFA	

Purpose of Report:	To inform the Committee of the advice from CIPFA on the role of audit committees
Recommended Action:	To build in to the work programme of this Committee the issues identified in this report to ensure the Committee meets best practice requirements
Reason for decision to be taken:	To allow members to consider adding to the work program of this committee
List of other options considered:	none
Key background documentation:	

Contact Officer Details	
Name:	Ian Priestley
Job Title:	Head of Assurance
Tel. No.:	01635 519253
E-mail Address:	ipriestley@westberks.gov.uk

Supporting Information

1. Background

- 1.1 The Governance and Audit Committee has only recently been set up with new terms of reference. In effect the CIPFA Guidance develops, in some detail, aspects of the Committee's terms of reference. CIPFA also provide guidance on the status, operation and membership of the committee.
- 1.2 The guidance is not mandatory, it is advisory. However, the operation of the "Audit Committee" is subject to review as part of the CPA Use of Resources. It is likely, given the way the CPA goalposts move, that the CIPFA Guidance will become part of the review of the Use of Resources.
- 1.3 Internal Audit have drafted a "Charter" setting out the role and responsibility of Internal Audit. This is attached at appendix B
- 1.4 A protocol for reporting both to officers and to the Governance and Audit Committee has been drawn up. A copy is attached at Appendix C. The aim of this document is to clarify the process for signing off audit reports with officers and reporting results of audit work to this Committee.

Appendices

- A – Summary of the CIPFA guidance
- B – Internal Audit Charter
- C – Reporting protocol for Internal Audit

Consultation Responses

Local Stakeholders:	None
Officers Consulted:	None
Trade Union:	None

Implications

Policy:	None
Financial:	None
Personnel:	None
Legal:	None
Property:	None
Risk Management:	None

Appendix A

Audit Committees – Practical Guidance for Local Authorities

1. Cipfa have produced a guidance note on the above. This note outlines the key points made by Cipfa.
2. Purpose of the Audit Committee is to provide independent (of the Executive or Scrutiny functions) assurance and scrutiny over:
 - The adequacy of the Risk Management framework
 - The adequacy of the internal control framework, including the Statement of Internal Control and implementation of audit recommendations
 - Financial and non financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment
 - The financial reporting process
3. Core Functions to be performed by the Committee include:
 - Review the effectiveness of the Council's Risk Management arrangements, the control environment and associated Anti Fraud and Corruption arrangements
 - Seek assurance that action is being taken on risk related issues identified by auditors and inspectors
 - Be satisfied that the Council's assurance statements (currently produced annually by all Heads of Service) and the Statement of Internal Control properly reflect the risk environment and any actions required to improve it.
 - Approve the Internal Audit Strategy and Plan (to ensure that there is adequate coverage) and monitor performance (assessing whether adequate skills and resources are available to provide an effective function).
 - Review summary internal audit reports and the main issues arising and seek assurances that action has been taken where necessary.
 - Receive the annual report of the head of internal audit
 - Consider reports of external audit and inspection agencies
 - Ensure that there are effective relationships between external and internal audit and inspection agencies and other relevant bodies and that the value of the audit process is actively promoted.
 - Review the financial statements, including the suitability of accounting policies and treatments, provisions or adjustments.
 - Review the external auditors annual audit letter, any other reports and opinion and monitor managements action in response to issues raised. (Also comment on the external auditors planned work programme)

4. The Committee should also have oversight of and comment on the adequacy of a number of “control strategies”. These are:
 - The Risk Management Strategy
 - The assurance framework, including the production of the Statement of Internal Control
 - Local codes of Corporate Governance, standards and behaviour
 - Arrangements for delivering value for money
 - Anti fraud arrangements
 - Anti corruption arrangements, including the Council’s Confidential Reporting Code.

5. The Guidance outlines the characteristics of an effective audit committee. These include the following features:
 - A strong Chair displaying a depth of skills and interest.
 - Unbiased attitudes – treating auditors, the executive and managers equally
 - The ability to challenge the executive, Leader and Chief Executive when required.
 - Membership that is balanced, objective and independent of mind
 - Financial understanding and recognition of the value of audit
 - Support of the Leader and the Chief Executive
 - Monitoring and chasing managers for responses to audit recommendations

6. The Guidance recommends the following in terms of structure and administration:
 - Independence of Executive and Scrutiny functions. The independence of the committee could be compromised by too much cross membership and should be restricted to one from each.
 - Clear reporting lines and access to other committees, eg scrutiny and corporate groups, eg the Risk Management JCC.
 - Regular meetings, at least quarterly
 - The ability to meet privately with the head of internal audit and the appointed external auditor.
 - Have as regular attendees the s151 officer (who will have an important relationship with the committee as their roles are closely aligned and complimentary) – head of internal audit – appointed external auditor – monitoring officer – Chief Executive. These officers should also have access to the committee or Chair as required.
 - The committee should be properly trained.
 - The Chair should not be a member of the executive
 - The size of the committee should be limited.
 - Co-option of external expertise should be considered

Appendix B

AUDIT CHARTER

1 Definition and Purpose of Internal Audit

The CIPFA Code of Practice for Internal Audit in Local Government (2003) defined Internal Audit as 'an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comparing risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.'

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003, which state in respect of Internal Audit:

'A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices.'

The existence of an Internal Audit function does in no way diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in an efficient, secure and well ordered manner within the Authority.

2 Objectives

As an independent appraisal function within the Authority, the objectives of Internal Audit are:

- To review, appraise and report on the adequacy of internal controls as a contribution to the economic, efficient and effective use of resources.
- Ascertain the extent of compliance with procedures, policies, regulations and legislation.
- Provide reassurance to management that their agreed policies are being carried out effectively
- Facilitate good practice in managing risks
- Recommend improvements in control, performance and productivity in achieving corporate objectives.
- Review the value for money processes, best value arrangements, systems and units within the Authority.
- Work in partnership with External Audit
- Identify fraud as a consequence of its reviews and deter crime.

3 Scope and Accountability

Internal Audit as a function will remain independent of the Authority's operational activities, and its auditors will undertake no operational duties. This will allow auditors to perform duties in a manner which facilitates impartial and effective professional judgements and recommendations.

The scope of Internal Audit allows for unrestricted coverage of the Authority's activities and access to all staff, records and assets deemed necessary in the course of the audit.

Accountability for the response to advice and recommendations made by Internal Audit lies with the management of the Authority. Management can accept and implement advice and recommendations provided or formally reject it. Internal Audit is not responsible for the implementation of recommendations or advice provided.

4 Reporting

All audit assignments will be the subject of a formal report written by the appropriate auditor. The report will include an 'opinion' on the adequacy of controls in the area that has been audited.

Every Internal Audit report issued, with the exception of schools, is subject to a follow up in order to ascertain whether actions stated by management in response to the audit report have been implemented. The Group Auditors and Head of Assurance will determine if progress made in response to recommendations stated in the issued audit report is satisfactory, or if a further follow up is required.

Further details of the reporting process can be found in the Internal Audit Reporting Protocol, Appendix C.

Appendix C

INTERNAL AUDIT REPORTING PROTOCOL

1. Stages involved in reporting Internal Audit Findings

- 1.1 The following highlights the key stages for reporting Internal Audit's findings. Where, during an audit, a serious problem is discovered which requires immediate attention, it may be necessary to issue an interim report, however, audit reports are normally produced at the end of each audit project.
- 1.2 The reporting process has three key stages :-

Rough Draft Report;
Draft Report;
Final Report.
- 1.3 The rough draft will be issued to the Service Manager to check the factual accuracy, and to obtain their initial observations.
- 1.4 The formal draft will be issued once the Service Manager is satisfied with the accuracy of the report. The circulation of the formal draft report will ensure that all relevant people have had an opportunity to comment on the content of the report, prior to it being finalised.
- 1.5 We request comments/observations from all recipients, however, we treat the relevant Head of Service/Unit Manager as the main client, and as such we require the Head of Service to agree to the details, and comment on the recommendations, of the report before it is finalised. Where a recommendation is not agreed, we require the Client's reasoning for this, and this detail is included in the action plan (attached to the report) for future reference.
- 1.6 In respect of schools a draft report will be issued for agreement and a review of factual accuracy to the Head Teacher and School Governors. In schools where the audit opinion has concluded that the system of control operational is weak, a meeting to discuss the report and audit findings will be held with the Head Teacher. Where schools are not deemed to have a weak system of control, a written response from the Head Teacher and governors is required in response to advice and recommendations provided.
- 1.7 Once the report is agreed between the Group Auditor, Head Teacher and governors, a final report will be issued. The final report will be issued to the Head Teacher, School Governors and Head of Education Services.

2 Follow Up of Audit Recommendations

- 2.1 A follow up process is required in order to be able to give management/members assurance that the required controls have been put in place, or to be able to highlight where this is not the case.
- 2.2 A follow up is carried out for all audits where recommendations have been made.

2.3 Schools are not subject to a formal follow up process by Internal Audit. The responsibility for follow ups lies with the School Improvement Officer and the implementation of advice and recommendations provided by Internal Audit remains with the school governors.

2.4 A follow-up review is carried out roughly six months after the audit report was finalised. The exception to this is where an annual review is required to be undertaken in accordance with the Audit Commission’s requirements. The follow-up then forms part of the following year’s review.

3. Timescales for receipt of Client Responses to Audit Requests for information/Responses to Audit Reports

3.1 This protocol sets out the timeframes by which we require a response from the Client, together with the processes to be followed where these timeframes are not met.

Suggestion of Timeframe protocol:-

	<u>Timeframe For Receipt of Response</u>	<u>Action where no response is received</u>
Rough Draft Report	Within 3 weeks of receipt (or notification of when a response will be received)	Stage 1 - Reminder issued to the Line Manager (Head of Service copied in) specifying a response is required within two weeks otherwise the Corporate Director is to be informed.
	Within two weeks of stage 1	Stage 2 - Corporate Director informed of lack of a response (Copied to the Line Manager and Head of Service) specifying a response is required within two weeks otherwise this will be reported to the Corporate Board

	<u>Timeframe For Receipt of Response</u>	<u>Action where no response is received</u>
Draft Report	Within 3 weeks of receipt (or notification of when a response will be received)	Stage two of the Rough draft will apply

3.2 These timeframes, together with action to be taken where no response is received will be incorporated into the standard letters/memos we issue with each report.

- 3.3 The relevant Group Auditor will use his/her judgement on each case to take into account any extenuating circumstances, and will notify the Head of Assurance where there are issues with non-compliance that needs to be reported to Corporate Board.

4 Reporting to the Governance and Audit Committee

The Head of Assurance will provide the following:-

- 4.1 A schedule listing each finalised audit, highlighting the overall opinion **Green or Amber**. A summary of the key issues will be produced for all **Amber** opinions.
- 4.2 In the case of schools, a summary of completed audits with the overall opinion.
- 4.3 A schedule listing each follow-up that has been carried out, highlighting opinion on progress made:-

Fully implemented - no further action required;

Satisfactory progress - key weaknesses addressed, only minor issues outstanding (standard letter/memo will request confirmation when the issues have been addressed);

Unsatisfactory progress – Group Auditor/Head of Assurance to assess whether the explanation for non implementation is reasonable. Where this is found to be the case a revised timeframe for implementation will be agreed with the Client. Where this is not the case this review will be reported to Committee as a **Red** opinion.

The categorisation of the follow-up will be included in the follow-up letter/memo, and the relevant Line Manager/Head of Service will be given an opportunity to comment on a draft before the document is finalised.

5 Circulation of Audit Documents to Clients

5.1 Audit Reviews to provide Assurance

<u>Client</u>	<u>Terms of reference*</u>	<u>Rough Draft Report</u>	<u>Formal Draft Report</u>	<u>Final Report</u>	<u>Follow-up details</u>
S151 Officer (Head of Resources)	All cases		Where there are fundamental weaknesses in the service	All cases	All cases
Service / Unit Manager	All cases	All cases	All cases	All cases	All cases
Head of Service	All cases	Only where serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written	All cases (including schools where there are fundamental weaknesses)	All cases	All cases
Corporate Director	All cases		Where there are fundamental weaknesses in the service	All cases (except for schools)	All cases
Chief Executive			Only where serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written. The Service Head, Assurance will decide on the necessity to issue a report at this level.	Any report with fundamental weaknesses	Any report with fundamental weaknesses

*** Except establishments**

With the exception of schools, TOR are not generally issued for establishments visits. Alternatively, a letter is issued which confirms details of the arranged visit, this also provides details of the type of records that will be required as part of the audit.

5.2 Advisory/VFM Reviews

(An Approach to be agreed with the Client prior to commencing a review, and to be noted in the terms of reference to provide clarity of how the findings are to be reported). Advisory Reviews (such reviews may arise from the provision of advice on key controls in systems, where the Service concerned is already aware that improvement is needed or the systems are being reviewed by the service area.

<u>Client</u>	<u>Terms of Reference</u>	<u>Rough Draft Report</u>	<u>Formal Draft Report</u>	<u>Final Report</u>
Line Manager	All cases	All cases	All cases	All cases
Head of Service	All cases		All cases	All cases
Corporate Director	All cases			All cases

Due to the nature of the work an overall opinion will not be given for an advisory/VFM review. These reviews would follow the standard follow process for follow-ups (progress categorisation/circulation of findings).