

BOLSOVER DISTRICT COUNCIL

AUDIT COMMITTEE 21st MAY 2013

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

AUDIT COMMITTEE : SELF ASSESSMENT 2012/13

RELEVANT CORPORATE AIMS : All

TARGETS : No specific Targets

VALUE FOR MONEY: Effective governance arrangements are a key element in securing value for money across all Council Activities.

1 Purpose of Report

1.1 To enable the Audit Commission to undertake a self-assessment of the role that it is performing within the Council together with an assessment of its effectiveness in ensuring that the authority has effective governance arrangements.

2 Background Information

2.1 CIPFA / SOLACE published their guidance concerning Delivering Good Governance in Local Government at the end of the 2012 calendar year. That guidance has been used in developing the Annual Governance Statement a report on which appears elsewhere on this agenda.

2.2 The publication contains a significant amount of discussion concerning the role of the Audit Committee in ensuring good governance in local authorities and this information is presented in this report in order to enable the Audit Committee to benchmark itself against good practice and to allow it to assess its contribution to the overall Governance arrangements within the authority.

2.3 The Council has acquired a corporate licence to make the content of the Good Governance Guidance available to both Members and Officers. Appropriate sections of the Guidance are included within this report and an electronic copy of the CIPFA / SOLACE guidance is available on request.

2.4 The Guidance summarises previous CIPFA publications to provide an overview of the core functions that should be undertaken by an Audit Committee. These are as follows:

- consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements
- seek assurances that action is being taken on risk-related issues identified by auditors and inspectors
- be satisfied that the authority's assurance statements properly reflect the risk environment and any actions required to improve it

- approve (but not direct) internal audit's strategy and plan, and monitor performance
- review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary
- receive the annual report of the head of internal audit
- consider the reports of external audit and inspection agencies
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted
- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit

2.5 Within the Guidance the benefits of having an Audit Committee are that it provides effective assurance about the adequacy of financial management and reporting. IN CIPFA / SOLACE's view these functions are best delivered by an audit committee independent of the executive and scrutiny functions. CIPFA / SOLACE regard the Audit Committee as having a significant role in:

- helping to ensure an authority achieves value for money
- giving additional assurance through a process of independent and objective review
- helping to improve the adequacy and effectiveness of risk assessment, risk management and internal control
- reinforcing the objectivity, importance and independence of internal and external audits and therefore the effectiveness of the audit function
- raising awareness of the need for sound control and the implementation of recommendations by internal and external audit
- ensuring effective arrangements exist for enabling a whistleblower to report irregularities.

3 Issues for Consideration

3.1 In considering its effectiveness the Audit Committee may choose to consider the purpose and benefits of an audit committee as set out in sections 3.4 and 3.5 above. In addition Appendix 1 extracts from the CIPFA / SOLACE guidance the questions which an Audit Committee needs to consider in assessing its effectiveness.

3.2. It should be noted that a further report covering the issue of the Governance of Risk and Value for Money will be brought to the next meeting of this Committee. That report will be accompanied by a report considering the Council's Risk Management Framework and Strategy.

4 Legal Aspects

4.1 There are no legal issues arising out of this report.

5 Risk Management

5.1 Effective governance arrangements for local authorities are crucial if they are to meet the standards of accountability, integrity, consumer focus, democratic engagement and organisational effectiveness that are expected of them. The Audit Committee plays a key role in ensuring that appropriate governance arrangements are in place and in quality assuring such governance arrangements. By assessing both the Governance

arrangements that are in place and by self assessing its own effectiveness as a Committee the Audit Committee can mitigate the risk that the Council's governance arrangements will not be fit for purpose.

6 Policy and Performance

- 6.1 Governance arrangements are designed to ensure that the Council's Policy and Performance frameworks are in place and operate effectively. As such this report and the Governance Statement provide a general health check on the Council's policy and performance arrangements.

7 Financial Implications

- 7.1 There are no additional financial implications arising from this report for the Council.

8 Equalities Issues / Human Resources Implications / Environmental Considerations

- 8.1 There are no direct implications, although the preparation of the Governance Statement will provide some high level assurances regarding the operation of current arrangements in these areas.

9 Crime and Disorder/ Community Safety Implications

- 9.1 There are no direct implications, although the preparation of the Governance Statement will provide some high level assurances regarding the operation of current arrangements in these areas.

10 Reasons for Recommendations

- 10.1 To enable the Audit Committee to review its effectiveness in the promotion and maintenance of good Governance arrangements within the authority.

11. Recommendations

- 11.1 That the Audit Committee utilise the guidance contained in the CIPFA / SOLACE publication "Delivering Good Governance in Local Government" to undertake a self assessment of its effectiveness in promoting good governance.
- 11.2. That the Committee request that a further self assessment exercise with respect to Risk Management and Value for Money arrangements be brought to the next meeting of this audit Committee.

Questions for Audit Committee Members to Ask: Governance – Extracted from CIPFA / SOLACE: Delivering Good Governance in Local Government (2012)

The assessment covers the six principles of good governance. To assist the Committee the Director of Resources has where appropriate provided comments in response to the issues raised by CIPFA / SOLACE. It is for the Committee to take a view as to the appropriateness of these comments and to consider those issues where no comments have been made.

1 Good governance means focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

Does the internal audit strategy meet our needs?
The Head of the Internal Audit Consortium produces an Internal Audit Plan at the outset of each financial year and provides formal monitoring reports concerning progress against that plan at regular intervals during the course of the year. The Audit Committee formally approves the Audit Plan and it is agreed by both External Audit and the Director of Corporate Resources (S151 Officer).

Are the authority's key risks still relevant to the current strategic objectives?
These are kept under review in the preparation of the Plan. Internal Audit have access to all key Council reports , performance and financial data and therefore are in an appropriate position to ensure that the report reflects changing risks.

1 Good governance means members and officers working together to achieve a common purpose with clearly defined functions and roles

Does the internal audit reporting line ensure that audit recommendations are given due weight and attention?
The Audit Committee and SAMT consider the outcome of all internal audit reports, with the Audit Committee receiving a copy of all reports that are marginal or unsatisfactory.

How are external auditors co-ordinating their work with the authority's internal auditors?
External and Internal audit undertake such liaison as they consider to be appropriate.

Is a common definition of risk used across the authority?
The authority has a Risk Management Framework which is applied across the authority.

2 Good governance means promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Are the internal auditors free from any other responsibilities that could impair their independence?

Yes

Are procedures followed consistently with the need to achieve value for money?

The Council is actively promoting a culture based upon effective performance management and robust budgetary control. When these are applied against a background of an on-going reduction in the level of financial resources available then these will provide powerful incentives to securing VFM.

What steps are being taken to discharge the duty to promote and maintain high standards of conduct?

This is assessed as part of the process of preparing the Annual Governance Statement and that assessment is outlined in a report which appears elsewhere on this agenda.

3 Good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Do internal and external auditors receive the necessary degree of co-operation?

In the view of the Director of Corporate Resources the necessary degree of co-operation has been achieved. He is not aware of any issues where appropriate co-operation has not been received.

Where internal audit budgets are being reduced, how will the level of assurance be maintained?

Internal Audit budgets have not been significantly reduced although the savings from a limited amount of natural wastage have been taken.

Have there been any attempts to restrict the scope of the internal auditors' work in any way?

No

How is the efficiency and effectiveness of internal audit demonstrated?

The Audit Committee receives regular reports which should put it in a position to reach an informed view. The Chief Financial Officer provides a report to the Audit Committee on an annual basis which assesses the effectiveness of internal audit. The report relating to 2012/13 will be brought to the June meeting of this Committee.

Do the internal or external auditors have any concerns about management's control awareness or operating style?

Any such concerns will be raised as part of their routine reporting process. Both internal and external audit are aware of their right to report any concerns to the Audit Committee.

Does the audit committee have all the assurances it needs to meet its responsibilities and ensure the authority meets its statutory duties?

The Chief Financial Officer seeks to ensure that the Authority's business is

conducted in line with statutory duties and good practice. One of the intended outcomes from this report and self-assessment is that the Audit Committee should consider its role in the organisation and whether it undertakes its functions effectively.

Is there effective assurance across all key areas?

The Annual Governance Report, this self-assessment, the reports of External and Internal Audit should inform the Audit Committees views on this matter.

Is the audit committee over-reliant on internal and external audit for assurance? Are there other sources of assurance that should be considered?

The Annual Governance Statement and this self-assessment should enable the Audit Committee to give appropriate consideration to this issue.

Have all staff had the opportunity to contribute to identifying the risks the authority faces?

Service Plans which are provided by all sections incorporate a Service Risk register which needs to be agreed by the teams themselves. The Quarterly Finance, Performance and Risk meetings together with the Business Risk Group provide an opportunity to input into and influence both Service and Strategic Risk Registers.

Is risk management part of all planning and decision-making processes?

All reports to Committee include a section on, projects have Risk Registers and management processes highlight the importance of giving appropriate consideration to Risk.

Is risk management integrated with the authority's other procedures?

Risk is considered alongside Performance and Finance as part of the Council's Performance Management framework.

Are appropriate procedures in place to ensure adequate user involvement in the development of new systems and major systems changes, including the design of control checks and balances?

All projects are managed through a project group which includes representatives of all stakeholders.

Has the authority implemented national counter-fraud standards?

Yes.

4 Good governance means developing the capacity and capability of members and officers to be effective

Are there appropriate training and induction procedures for audit committee members?

It is appropriate that the Audit Committee comes to its own view on this issue.

Does the audit committee periodically assess its own effectiveness?

This report is intended to secure that objective. It is intended that an appropriately updated version of this report this report will be brought back to Audit Committee on an annual basis in line with the reporting of the Annual Governance Statement.

Do internal audit staff have sufficient technical and professional knowledge and experience to ensure that audits are performed to appropriate professional standards? Is there sufficient systems expertise to deal with the level of technology used by the authority?

The Chief Financial Officer will be bringing a report to the June meeting of this Committee providing his assessment of the effectiveness of Internal Audit.

Does the authority run training sessions on risk management for new staff?

While the Corporate Induction process provides a brief introduction where risk management is a significant part of any role it will be incorporated into the person specification which will ensure that only suitably experienced qualified people will be appointed. Where necessary appropriate training will be arranged.

Has the authority assessed itself against the CIPFA Statement on the Role of the Chief Financial Officer in Local Government? Are there any issues to address?

This was undertaken as part of the process of preparing the Annual Governance Statement.

Has the authority assessed itself against the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations? Are there any issues to address?

This was undertaken as part of the process of preparing the Annual Governance Statement.

5 Good governance means engaging with local people and other stakeholders to ensure robust local public accountability

Does the authority's annual governance statement reflect reality?

The Chief Financial Officer is of the view that is based upon an appropriate assessment which took account of any relevant sources of information. The Annual Governance Statement will be subject to consideration by the Audit Committee, by the Senior Alliance Management Team and by External Audit (KPMG). This should ensure effective scrutiny of the contents.

Does the annual governance statement reflect compliance?

The Annual Governance Statement will be subject to consideration by the Audit Committee, by the Senior Alliance Management Team and by External Audit (KPMG). This should ensure effective scrutiny of the contents.

Are there areas where the authority does not comply with relevant guidance?

Not to the knowledge of the Chief Financial Officer. Should such areas be identified then the authority will either move to ensure compliance or will report such noncompliance to the appropriate body.

Did any circumstances prevent adherence to the agreed timetable for preparing and auditing accounts? Did any delays result in an audit overrun?

The 2011/12 Accounts were prepared and concluded in accordance with the

required timescale. Plans are in place to ensure that the timetable is adhered to in 2012/13. The Audit Committee will be aware that the Council was not able to achieve adherence in 2010/11.

Do the authority's financial statements satisfy all statutory and regulatory disclosure requirements to which the authority is subject?

Officers will take appropriate steps to ensure that the Council is fully compliant. The work of officers will be subject to independent External Audit and subject to Member and Audit Committee scrutiny. The accounts themselves are a public document which are fully accessible for wider public scrutiny.

7. Ensuring Effectiveness

For audit committees to be effective, they should have:

Clear, distinct and up-to-date terms of reference

The Terms of Reference are set out in the Council's Constitution which are reviewed on a regular basis. The relevant section of the Constitution is as follows:

(7) AUDIT COMMITTEE

1. Statement of Purpose

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment. The Audit Committee will also oversee the Authority's corporate governance arrangements.

2. Reporting Framework

The Audit Committee will report directly to the Council, and provide information to the Executive for action, whilst maintaining its independence.

3. Membership and Structure of Meetings

The Audit Committee will have a membership of 6 and reflect the political composition of the Council, the number of independent non elected representatives will be three. A quorum will constitute at least three members of the Committee.

The Chair and Vice Chair of the Committee will be elected from its membership. The Audit Committee will meet at least four times per year but retain the flexibility to call special meetings where necessary. This will be at the request of the Chair or Vice Chair of the Audit Committee or in accordance with the Constitution. The minutes of the Audit Committee will be reported to Full council.

4. Principal Responsibilities

(1) To ensure that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions to include the following:-

- i) Arrangements for the assessment and management of risk within the Authority and ensuring they are embedded within the organisation.
- ii) Approving and modifying the terms of reference and strategy for internal audit.
- iii) Receiving and approving the annual internal audit plan and reviewing the external audit plan.
- iv) Receiving quarterly reports on the progress against the annual audit plan.
- v) Reviewing and adopting the Annual Governance Statement.
- vi) Reviewing the Council's anti-fraud policy

- (2) To consider the Council's Code of Corporate Governance and approve the annual statement in that respect.
- (3) To review, scrutinise and approve the Draft Statement of Accounts prior to review by External Audit and report such to Council.
- (4) To consider and approve, after review by External Audit, if the review is available, the Statement of Accounts and report such to Council. The date by which this must be achieved is 30th September each year.
- (5) To review and adopt the detailed and summary Annual Governance Statement in light of the Internal Audit Annual review, report on the effectiveness of Internal Audit, Governance letters and the financial details shown in the statement of Accounts. In addition when these items are scheduled for consideration the Leader, Deputy Leader and the appropriate Cabinet member for Strategic Organisational development would be invited to attend the Audit Committee and participate in the debate and discussion, but no voting rights would be associated with the invitation.
- (6) To review the Council's internal audit function and monitor performance.
- (7) To monitor and ensure implementation of internal and external audit recommendations.
- (8) To be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

5. Members and Officers Giving Account

- 1. The Audit Committee may scrutinise and review decisions made or actions taken in connection with the discharge of any Council functions. As well as reviewing documentation, in fulfilling this role, it may require any Member of the Executive, Scrutiny Committee, the Head of Paid Service, the Director of Resources, the Monitoring Officer and any Head of Service to attend before it to explain in relation to matters within their remit and it is the duty of those persons to attend if so required.
- 2. Where any Member or officer is required to attend the audit Committee under this provision, the Chair of that Committee will inform the Chief Executive Officer. The Chief Executive Officer shall inform the Member or Officer in writing giving at least 15 working days' notice of the meeting at which he/she is required to attend. The notice will state the nature of the item on which he/she is required to attend to give account and whether any papers are required to be produced for the Committee. Where the account to be given to the Committee will require the production of a report, then the Member or officer concerned will be given sufficient notice to allow for preparation of that documentation.
- 3. Where, in exceptional circumstance, the Member or officer is unable to attend on the required date, and then the Chair of the Audit Committee shall in consultation with the Member or officer arrange an alternative date for attendance.

An appropriate place within the governance structure of the authority and effective reporting arrangements

The Audit Committee should consider this issue in the light of the Council's Constitution. The reporting framework as established by the Constitution is as follows: "The Audit Committee will report directly to the Council, and provide information to the Executive for action, whilst maintaining its independence. "

Members that are fully aware of their role, appropriately trained and independent minded.

This self-assessment should ensure that Members are fully aware of their role.

The Audit Committee itself will need to form a view as to the other issues raised by this question.

A skilled chair supported by members with financial and audit expertise

Audit Committee Members are selected on the basis that they have appropriate skills and experience. Ultimately, however, the Audit Committee itself will need to form a view as to the other issues raised by this question.

An appropriate balance of expertise, experience, continuity and political neutrality to discharge its responsibilities

This is covered in the Constitution. Membership of the Committee does include Elected Members who are also Members of Executive which is contrary to the principle that the Committee should be independent of Executive and Scrutiny. The Committee itself may wish to consider whether this impinges on its effectiveness. It should perhaps also be recognised that the presence of senior Executive and Scrutiny Members does strengthen the ability of the Audit Committee to influence the Governance of the Council in a positive fashion.

Officer support (including a secretary role)

The Committee is supported by the Director of Resources, Internal Audit and by the Governance Team.

A clearly set out and agreed (but flexible) annual work plan

The Audit Committee has not approved a formal annual work plan but its agenda is determined by the wider financial and governance timetables that are operational within the Council.

A wide-ranging agenda that reflects the governance, risk and control priorities of the authority

The Audit Committee is structured around a consideration of key reports on Finance and Risk which are prepared for the 'Executive'. It has a Key Issues of Financial Governance report at every meeting which allows it to monitor progress against underlying Governance issues facing the Council.

Access to other committees/information as required

The Committee's rights are set out in the Constitution and it can require that it receives information which it considers to be appropriate to the conduct of its business.

Agenda papers circulated well in advance of the meetings

The aim is to ensure that all reports are circulated at least 5 working days before the meeting. While this will not be possible in all cases Officers are working to secure improved adherence to this 5 working day deadline.

Meetings arranged on a regular basis

The Committee has approximately 6 meetings a year which are spread throughout the year.

Engagement with a wide range of services in accordance with the risks under review

Directors are requested to attend meetings as required.

Regular assessment of performance as a committee.

This report is intended to secure that objective. It is intended that an appropriately updated version of this report this report will be brought back to Audit Committee on an annual basis in line with the reporting of the Annual Governance Statement.