

MUNICIPAL YEAR 2017/18 REPORT NO. 86

MEETING TITLE AND DATE:

Audit & Risk Management
Committee
1 November 2017

REPORT OF:

Executive Director of Finance,
Resources and Customer
Services

Agenda – Part:

Item: 7

**Subject: Audit & Risk Management
Committee Assessment of Good Practice
and Effectiveness**

Wards: All

Cabinet Member consulted:

Contact officer and telephone number:

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1. EXECUTIVE SUMMARY

1.1 This report presents the results of the Audit & Risk Management Committee's self-assessment of good practice and effectiveness, which is based on standards for audit committees as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) publication 'Audit Committees: Practical Guidance for Local Authorities & Police' (2013 edition).

1.2 An action plan for further improvement has been derived from the assessment.

2. RECOMMENDATIONS

2.1 That Members consider the results of the assessment of the Committee's good practice and effectiveness and agree actions for improvement.

3. BACKGROUND

- 3.1 A local authority has a duty to ensure that it is fulfilling its responsibility for adequate and effective risk management, control and governance and for the economy, efficiency and effectiveness of its activities. Enfield Council's Audit & Risk Management Committee has a key role in overseeing and challenging the organisation's governance, risk management and control arrangements and for advising the full Council on the adequacy and effectiveness of these arrangements.
- 3.2 In its publication 'Audit Committees: Practical Guidance for Local Authorities & Police' (2013 edition), the Chartered Institute of Public Finance and Accountancy (CIPFA) has set out a range of suggestions and comments about the operation of an audit committee. The document sets out a checklist of best practice questions and recommends that the current operation of the Committee should be reviewed against this checklist to identify areas for improvement within existing arrangements.
- 3.3 Standards are set out to cover the following themes:
- Good practice, including
 - Audit committee purpose and governance
 - Functions of the committee
 - Membership and support
 - Effectiveness of the committee.
- 3.4 Four members volunteered to assist with the self-evaluation of good practice and effectiveness. To assess effectiveness, the members considered and scored questions about whether and how the Committee is adding value to the organisation.
- 3.5 The results of the self-assessments of good practice and effectiveness are presented at Annexes 1 and 2.
- 3.6 The results show that the Audit & Risk Management Committee complies with the majority of standards set by Cipfa. The exercise has identified five areas where improvements could be made. These have been set out in table 1, along with suggestions for improvement that Members can consider.

Table 1: Areas for improvement identified by Members' self-assessment of Audit & Risk Management Committee practice and effectiveness

Standard from Cipfa's checklist	Yes/No/Partly	Comment	Proposed action
Do the terms of reference (TOR) clearly set out the purpose of the committee in accordance with Cipfa's Position Statement? Do the committee's terms of reference explicitly address all the core areas identified in Cipfa's Position Statement?	Partly	Terms of reference do not clearly set out the purpose relating to financial reporting, external agencies and treasury management. They do not explicitly express all core areas.	Terms of reference to be reviewed and revised in line with Cipfa's Position Statement

Standard from Cipfa's checklist	Yes/No/Partly	Comment	Proposed action
<p>Has the Audit & Risk Management Committee considered the wider areas identified in Cipfa's Position Statement and whether it should be appropriate for the committee to undertake them?</p>	<p>Partly</p>	<p>The Position Statement identifies the following areas where the Committee could support the Council:</p> <ul style="list-style-type: none"> • Considering governance, risk or control matters at the request of other committees or statutory officers. • Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values. • Providing oversight of other public reports, such as the annual report. 	<p>Committee to consider whether a wider role would be beneficial.</p>
<p>Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p>	<p>Partly</p>	<p>Core knowledge of all members has been assessed with the exception of Andy Milne. Concern raised that members are not always familiar with the subject areas being reported.</p>	<p>Members to request briefings to support reports where they are unfamiliar with the areas being considered</p>
<p>Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?</p>	<p>Partly</p>	<p>Feedback from the external auditors has not been sought directly. This could provide assurance or suggestions for improvement</p>	<p>BDO to provide feedback on the effectiveness of the Committee, along with suggestions for improvement.</p>
<p>Has the committee evaluated whether and how it is adding value to the organisation? See additional questions</p>	<p>Yes</p>	<p>Results of effectiveness evaluation (Annex 2) highlighted that the following areas could be improved:</p> <ul style="list-style-type: none"> • Challenge to annual governance statement (AGS) • Early warning of issues arising (e.g. failure to sign off 	<ul style="list-style-type: none"> • Members to provide more robust challenge of the AGS. • Officers to warn members as soon as possible if there are significant concerns arising. • Assurance map used for planning of internal audit work to be shared with members. • Regular reports to be

Standard from Cipfa's checklist	Yes/No/Partly	Comment	Proposed action
		accounts on time) <ul style="list-style-type: none"> • Adequacy of the assurance framework • Major programme assurance • Value for money (VFM) assurance • Review of standards for the Counter Fraud service; • Effective public reporting. 	<ul style="list-style-type: none"> received to provide assurance in relation to financial and operational progress for major projects (e.g. Meridian Water) • Consideration needed as to how VFM is evaluated. • Counter Fraud service to be reviewed against the standards of the Red Book. • Members to continue to highlight reports that might not be easily understood by the local community and consider other areas where transparency and accountability can be improved.

3.7 Members are asked to agree actions to improve the effectiveness of the Audit & Risk Committee, such as those proposed in Table 1;

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 There are no other options which can be considered as these matters need to be reported to the Audit & Risk Management Committee.

5. REASONS FOR RECOMMENDATIONS

5.1 The effectiveness of the Council's Audit & Risk Management Committee was last reviewed in 2016. Therefore, it is now an appropriate time to refresh this assessment.

6. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE RESOURCES AND OTHER DEPARTMENTS

6.1 Financial Implications

6.1.1 There are no specific financial implications relating to this report.

6.2 Legal Implications

6.2.1 There are no specific legal implications relating to this report.

6.4 Property Implications

6.4.1 There are no specific property implications relating to this report.

7. KEY RISKS

- 7.1 Any large, complex organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the many risks it may face. Enfield Council has such a system, and the Audit & Risk Management Committee plays a key role in ensuring the adequacy and effectiveness of the risk management framework in place.

8. IMPACT ON COUNCIL PRIORITIES

6.1 Fairness for All

An effective Audit & Risk Management Committee helps to provide assurance over any risks to services and other Council activities that might adversely affect the delivery of high quality, affordable, accessible services to all residents.

6.2 Growth and Sustainability

An effective Audit & Risk Management Committee will help the Council achieve its objectives in the area of growth and sustainability.

6.3 Strong Communities

An effective Audit & Risk Management Committee will help the Council achieve its objectives in the area of strong communities.

9. EQUALITIES IMPACT IMPLICATIONS

Corporate advice has been sought in regard to equalities and an agreement has been reached that it is not relevant or proportionate to carry out an equalities impact assessment/analysis for this report.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

There are no specific performance management implications relating to this report.

11. HEALTH AND SAFETY IMPLICATIONS

There are no direct health and safety implications arising directly from this report.

12. HUMAN RESOURCES IMPLICATIONS

There are no direct HR implications arising from this report.

13. PUBLIC HEALTH IMPLICATIONS

Items summarised in this report do not have a direct impact on the health and well-being of the public in Enfield.

Background Papers

Cipfa publication - Audit Committees: Practical Guidance for Local Authorities & Police (2013 edition).

Audit & Risk Management Committee Self-Assessment of Good Practice

Good Practice Questions	Yes/No Partly	Comments
A&RM Committee purpose and governance		
Does the authority have a dedicated audit committee?	Yes	
Does the audit committee report directly to full council?	Yes	
Do the terms of reference (TOR) clearly set out the purpose of the committee in accordance with Cipfa's Position Statement?	Partly	Terms of reference do not clearly set out the purpose relating to financial reporting, external agencies and treasury management
Is the role and purpose of the audit committee understood and accepted across the authority?	Yes	
Does the Audit & Risk Management Committee provide support to the authority in meeting the requirements of good governance?	Yes	
Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	
Functions of the committee		
Do the committee's terms of reference explicitly address all the core areas identified in Cipfa's Position Statement? <ul style="list-style-type: none"> • Good governance • Assurance framework • Internal Audit • External Audit • Financial Reporting • Risk Management • Value for money or best value • Counter fraud and corruption 	Yes Yes Yes Yes Partly Yes Yes Yes	Terms of reference do not explicitly express all core areas identified by Cipfa's Position Statement, particularly the purpose to obtain independent assurance regarding the integrity of financial reporting.
Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	
Has the Audit & Risk Management Committee considered the wider areas identified in Cipfa's Position Statement and whether it should be appropriate for the committee to undertake them?	Partly	The Position Statement identifies the following areas where the Committee could support the Council: <ul style="list-style-type: none"> • Considering governance, risk or control matters at the request of other committees or statutory officers. • Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values. • Providing oversight of other public reports, such as the annual report.
Where coverage of core areas has been	Yes	

Good Practice Questions	Yes/No Partly	Comments
found to be limited, are plans in place to address this?		
Has the Audit & Risk Management Committee maintained its non-advising role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	
Membership and support		
<p>Has an effective Audit & Risk Management Committee structure and composition of the committee been selected? 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 • Where independent members are used, they have been appointed using an appropriate process. 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	
Does the chair of the committee have appropriate knowledge and skills?	Yes	
Are arrangements in place to support the committee with briefings and training?	Yes	
Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Partly	Core knowledge of all members has been assessed with the exception of Andy Milne. Concern raised that members are not always familiar with the subject areas being reported.
Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	
Is adequate secretariat and administrative support to the committee provided?	Yes	
Effectiveness of the committee		
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	Feedback from the external auditors has not been sought directly. This could provide assurance or suggestions for improvement
Has the committee evaluated whether and how it is adding value to the organisation? See additional questions	Yes	Cipfa's 'Areas where audit committee can add value by supporting improvement' have been considered and scored according to guidance in the toolkit. Results are shown in Annex 2.
Does the committee have an action plan to improve any areas of weakness?		See this paper

Audit & Risk Management Committee Self-Evaluation of Effectiveness

Areas where audit committee can add value by supporting improvement	Average Score*	Comments
Promoting the principles of good governance and their application to decision making.	4.5	Not convinced about challenge to AGS. No reviews of governance arrangements
Contributing to the development of an effective control environment.	4.75	We have a strong chair, but members require better communication of issues where they arise e.g. valuations
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	5	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	4.5	There is reliance on professionals to inform members of key areas of expenditure on which assurance is needed.
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	5	
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	3.5	Although members have requested assurance on areas about which they have had concerns (e.g. Enfield 2017, homelessness, trading companies), it is felt that there has been insufficient assurance about major programmes.
Supporting the development of robust arrangements for ensuring value for money.	4.25	Some concerns raised about arrangements for ensuring VFM. Consideration needed as to how VFM is evaluated as part of the AGS.
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	4	Arrangements against Cipfa's standards (Red Book 2) have not been reviewed.
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	4.75	There is public reporting of Committee papers but these are not always presented in a way that the local community can understand (particularly financial statements).

*Scores range from 0 (no evidence that the Committee has supported improvements) to 5 (clear evidence from a number of sources that the Committee has actively supported improvements)