



**Manchester City Council
Audit 2007/08**

Review of audit committee arrangements

23 September 2008

1. Summary report

Background and context

- 1.1 By 2010, Manchester City Council wants to achieve a level 4 Use of Resources (UoR) standard. A key element of the UoR assessment relates to internal control and governance arrangements. The Council's 2006/07 UoR assessment is adequate (level 2). The Council is now considering ways to enhance its performance across key elements of governance, including the integration of governance and assurance via Internal Audit, Risk Management and the Audit Committee.
- 1.2 The Council's Audit Committee has been in place for around two years and its processes and work are becoming established. Members recognise that the forum and its impact on the Council is not yet fully mature, and it is timely to assess the effectiveness of the Committee to consider both what works well and areas for improvement.
- 1.3 Standards expected through the UoR assessment are rising and a level 4 Audit Committee will, as a minimum:
 - have a clear role
 - comprise trained and skilled members
 - be open and transparent
 - drive improvements in Council governance.
- 1.4 There are significant challenges in local government to achieving an effective audit committee including complexities arising from the relationship with scrutiny functions and the need to ensure party political bias does not distort discussion.

Scope and approach

- 1.5 We observed the operation of the Audit Committee during the year and, in July 2008, facilitated a self-assessment by Audit Committee members to identify opportunities to strengthen the Committee's challenge of the Council's arrangements. We:
 - analysed the feedback from a self assessment questionnaire, completed by five members of the Committee
 - held a half day workshop with six members of the Committee to discuss the outcomes from the survey (slides at Appendix 2)
 - developed an action plan based upon our observations of the Audit Committee, analysis of the self assessment questionnaire responses and discussions with members of the Committee (included at Appendix 1).

Key findings

1.6 Our observations on the operation of the Audit Committee during the year included:

- papers are read in detail and some very good questions are asked
- papers and reports are generally well prepared but in some cases it is not clear what the key messages are and what actions are required of the Audit Committee
- discussion does not always focus on areas of greatest risk to the Council, often in favour of more peripheral debate
- reports are occasionally issued late, with no clear timetable for papers to be received and issued
- there is not enough clarity over respective roles of Audit Committee and Resources and Governance Overview and Scrutiny Committee
- there is recent evidence of the Audit Committee taking ownership of the work programme
- timescales for expected reports and the implementation of agreed management actions sometimes slip, and are not always challenged
- there is scope to improve the effectiveness of processes for raising and dealing with questions:
 - long and detailed questions are often asked, sometimes relating to minor points
 - party political questions are sometimes asked that cloud the underlying issue or are not relevant to the Audit Committee
 - questions are not co-ordinated by members in advance to address key issues
 - key actions for management or for future Audit Committee meetings to address are not normally summarised to ensure that required actions are understood.
- agendas are usually long, sometimes containing training items, and meetings sometimes overrun.

1.7 The self-assessment demonstrated that members of the Committee had a generally good understanding of their role and the roles of the key assurance providers to the Committee. Questionnaire responses and discussions emphasised opportunities to:

- confirm the single point of contact for members to receive guidance on their role and remit, both outside of and during meetings. The relevant individual should have sufficient understanding of the role of the Committee, how it can best discharge its responsibilities and sufficient empowerment to ensure papers are appropriately structured to provide clear information to members

- improve and formalise induction arrangements, to ensure members have a clear understanding of their roles and responsibilities and have a development plan in place to bridge initial skills gaps identified through induction
- improve and regularise briefings for the Committee, to provide context to emerging issues and the papers members receive, and raise awareness of their role in reviewing information received. Informal briefings should also help 'de-politicise' formal meetings, and re-affirm the different roles of the Audit and Resources and Governance Overview and Scrutiny Committees
- develop a formal Committee work plan that clearly aligns the annual assurances the Committee is required to give, to the information and timing of the work they will receive during the year. This should provide comfort that the information received is sufficient, or allow action to be taken to fill gaps
- improve and enhance reporting arrangements, to facilitate members' understanding of and access to issues to be addressed by the Council
- identify and recruit independent members to the Committee.

1.8 We observed that members are keen to strengthen the role and profile of the Committee, to improve control and drive performance. We support this, and note the important role of senior Council members and officers in ensuring the role of the Committee is understood across the Council, and recognised as key to setting the right tone for governance, providing assurance and driving improvement in the Council.

1.9 Whilst noting that members did not consider current membership to be problematic, good practice suggests that, to effect independence and objectivity, members of the Audit Committee should not also be members of other key Committees, for example Resources and Governance Overview and Scrutiny. We acknowledge that this is a challenge that many other local authorities are also facing.

Next steps

1.10 Members of the Committee and officers should work together to agree appropriate actions to address the issues raised in our action plan.

Acknowledgements

1.11 We would like to take this opportunity to thank members of the Committee for their assistance and co-operation during the course of our work.

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23 September 2008

Appendix 1 – Action plan

No.	Observation	Proposed action	Council response	Implementation details
1.	<p>The Committee has access to other Council forums, but the self assessment and our observations indicated inconsistent awareness of:</p> <ul style="list-style-type: none"> • reporting lines between, and the respective terms of reference and responsibilities of, the Audit Committee and Resources and Governance Overview and Scrutiny Committee • the primary source of information and guidance on roles and responsibilities of the Audit Committee <p>Members may receive inconsistent guidance and briefings on their role and remit.</p>	<p>The initial point of contact for role, remit and responsibility queries should be formalised and communicated to members.</p>	<p>Members to be advised that the initial point of contact for all queries regarding their role and remit is the Committee Secretary (Roger Fielding). Given that a number of other officers have key roles in serving the requirements of the Audit Committee a group will also be formalised to ensure that these requirements are being met and to support the Committee Secretary in the effective servicing of the Committee's requirements. The other officers will comprise the following:</p> <ul style="list-style-type: none"> • Assistant Chief Executive (Performance) • Head of Financial Management • Interim Head of Internal Audit • Risk Manager 	<p>Committee Secretary (Roger Fielding)</p> <p>30 October 2008</p>

No.	Observation	Proposed action	Council response	Implementation details
2.	<p>Feedback indicates that whilst some members have a good awareness of their role and remit, others explain their role in operational rather than strategic and oversight terms.</p> <p>We have observed occasions when members have raised questions of a detailed operational nature, which should not be the focus of the Audit Committee.</p>	<p>Officer briefings and induction training should be provided to clarify member roles, including the differing roles of Audit and Scrutiny Committees.</p>	<p>A briefing on roles and responsibilities will be integrated into the workplan for the Committee. This will include clarification as to the different roles of the Council's Audit and Scrutiny Committees.</p>	<p>Committee Secretary (Roger Fielding)</p> <p>Given that the business of the September and October Audit Committee meetings will focus on the audit of the accounts, ISA 260 and internal audit the realistic timescale for a full briefing is 31 December 2008.</p>

No.	Observation	Proposed action	Council response	Implementation details
3.	<p>Discussions indicate that member awareness and understanding of their role could be improved. This is consistent with our observations of the Committee over the last year.</p> <p>Feedback indicates that members are not yet satisfied that:</p> <ul style="list-style-type: none"> • the Council allows them to focus on key and emerging risk issues • its work plan is appropriately aligned to emerging issues • they have sufficient and timely access to all appropriate information and reports. <p>Members identified that a schedule of work, clearly identifying assurances the Audit Committee is required to give, and the assurances it requires, would be helpful and give comfort that they are receiving timely and sufficient information to enable them to discharge their role effectively.</p>	<p>The Committee Clerk and Head of Internal Audit should work with the Chair to revise the work plan to align the assurance the Audit Committee is required to give, with the inputs it will receive during the year.</p> <p>This revised work plan should be used to confirm the completeness and timetable for receipt of inputs to ensure the Committee is able to discharge its responsibilities efficiently.</p>	<p>Whilst there is a formal process for the identification of matters to be presented to the Audit Committee this will be formalised through the production of an annual workplan / schedule of business concerning financial, risk management, audit, governance and other issues as appropriate. This workplan will also be used to inform a training needs assessment for Members.</p>	<p>Committee Secretary (supported by the Assistant Chief Executive (Performance) Head of Financial Management, Interim Head of Internal Audit and Risk Manager).</p> <p>31 December 2008</p>

No.	Observation	Proposed action	Council response	Implementation details
4.	<p>Feedback indicates that:</p> <ul style="list-style-type: none"> • induction and ongoing training is not yet considered effective • there could be more robust arrangements to determine the required skills and competencies for the Committee to be most effective, and to measure the current skill set against this • not all members consider other members to be sufficiently robust in their understanding of risk and financial management or fully aware of their roles and responsibilities • not all members have received training or fully understand the wider risk management oversight role of the Audit Committee in respect of risk management • the Committee does not review its own performance periodically, or take time outside of meetings to come together to resolve issues that may improve its effectiveness. 	<p>Officers should work with the Chair of the Audit Committee to agree an appropriate induction programme for new members of the Committee (see recommendation 2 above).</p> <p>An annual self-assessment should be carried out, including identification of further briefings and/or training to support members in the most effective discharge of their role.</p>	<p>Whilst we note that the timetable for annual appointments to the Audit Committee means it can be difficult to schedule briefings / training in advance of the first formal meeting in June. The workplan agreed in 3 above will include time for a briefing / induction session, an annual self assessment by Members (including an assessment of skills and experience) and a subsequent development plan for each Member where appropriate. Development issues will be considered in the broader context of the Council's Member development programme.</p>	<p>Committee Secretary (supported by the Head of Financial Management, Interim Head of Internal Audit and Risk Manager)</p> <p>31 December 2008</p>

No.	Observation	Proposed action	Council response	Implementation details
5.	<p>Feedback and further discussion during the workshop identified a need for a range of training for members to facilitate the discharge of their role, for example:</p> <ul style="list-style-type: none"> • financial statements briefing • operational services briefing • risk management briefing. <p>The attached slides at Appendix 2 identify other areas where members may benefit from additional guidance.</p>	<p>The revised work plan should be used to timetable appropriate and relevant Committee briefings that would help members discharge their responsibilities effectively.</p>	<p>As above</p> <p>This report provides a useful starting point for the identification of training needs to be considered for individual Members of the Committee as part of the process set out in 4 above.</p>	<p>As above</p>


No.	Observation	Proposed action	Council response	Implementation details
6.	<p>Members of the Committee are also members of other major committees of the Council. CIPFA good practice guidance states that Audit Committee members should not be members of other key Council Committees, since this may impact their independence and objectivity. It may be useful to note that in other areas of the public sector the trend is away from good practice into formal requirement in this area.</p> <p>We recognise the challenges that local authorities face in implementing this good practice and recognise that the Council regards shared membership with the Resources and Governance Overview and Scrutiny Committee as a benefit.</p> <p>Although the Audit Committee membership allows for two independent members, and members agree this provision useful, no independent members have been appointed.</p> <p>Our observations and self-assessment feedback indicated that not all members are free from political bias during meetings with examples of dwelling on the past rather than future, and not discussing items within the context of the control of risk and assurance. The workshop explored the difficulties in avoiding party political 'point scoring' during meetings, and identified a number of options for dealing with it.</p>	<p>To improve the independence and effectiveness of the Audit Committee, the Council should:</p> <ul style="list-style-type: none"> • decide whether to appoint the two independent members to the Audit Committee • ensure that training, workshops and briefings are provided and meetings are managed in a way that supports and encourages members to be independent, objective and non party political in their role as Audit Committee members. <p>Following implementation of these actions, the Council should periodically assess the effectiveness of the Audit Committee and confirm that shared membership with the Resources and Governance Overview and Scrutiny Committee remains the preferred model.</p>	<p>The CIPFA good practice raises appropriate concerns that Members of the Executive should not serve on the Audit Committee. Audit Committee Members are not part of the Executive and we consider this does help ensure independence and objectivity. There is a balance to be struck between an effective, experienced and informed Committee and the need to retain this objectivity. Whilst we consider that the current arrangements are appropriate at this time, the Committee membership will be considered formally as part of the annual self assessment.</p> <p>We recognise the potential benefits of independent members on the Audit Committee and will consider the skills and competencies that may be required as part of the self assessment set out in 4 above with a view</p>	<p>Committee Secretary (supported by the Head of Financial Management, Interim Head of Internal Audit and Risk Manager)</p> <p>31 December 2008 for the self assessment.</p>

No.	Observation	Proposed action	Council response	Implementation details
			<p>to identifying and appointing appropriate, independent Members.</p> <p>The effective use of training, workshops and briefings will be integrated into the annual work plan.</p>	
7.	<p>Members raised issues with the length of some meetings and expressed a preference for more control over the timing of agenda items.</p> <p>From feedback and the workshop it is clear that members would like clearer, shorter and more proactive reporting, that highlights the actions they are being required to approve or take.</p> <p>This is consistent with our observations around the length of some agendas and meetings.</p> <p>We recognise that additional meetings in early June and October, and the suggestion of member briefings and training outside of the Audit Committee, should help with this.</p>	<p>Clearer briefings on the role of the Committee in advance of taking key items should be made, either through briefing sessions or via a cover sheet for each Audit Committee paper detailing:</p> <ul style="list-style-type: none"> • purpose of the paper • the assurance that it informs • key matters of emphasis that the Committee may wish to consider • the action required by the Committee. 	<p>The annual workplan will be used to schedule the order of business throughout the year and will provide advance notice to Members of reports they will receive, what reports relates to and how they contribute to the overall assurance and governance framework within the Council.</p> <p>Individual reports will be reviewed by all authors on an ongoing basis to ensure that key issues and actions required are clearly emphasised.</p>	<p>Committee Secretary (supported by the Head of Financial Management, Interim Head of Internal Audit and Risk Manager)</p> <p>31 December 2008</p>

No.	Observation	Proposed action	Council response	Implementation details
8.	<p>Members do not yet consider that Internal Audit is providing a full and effective contribution and assurance to the Committee.</p> <p>We reported during the year that Internal Audit did not fully comply with relevant professional standards.</p>	<p>The newly appointed Acting Head of Internal Audit should work closely with Officers and the Chair of the Committee to confirm what action will be taken to ensure the Committees requirements are achieved. We understand this will include:</p> <ul style="list-style-type: none"> • supporting the Committee's understanding of Internal Audit's roles and responsibilities • clear alignment of the Internal Audit plan to the Council's risk profile and assurance required • demonstration of appropriate Internal Audit cover over the full range of Council business • effective and timely reporting. 	<p>The Interim Head of Internal Audit has been charged with the development of the service and the delivery of assurance reports in accordance with the approved 2008/09 audit plan.</p> <p>The role of internal audit was discussed with the Chair of the Audit Committee in September 2008 and an update briefing for the Audit Committee was presented at its meeting in September 2008. This included the vision for internal audit.</p> <p>An internal audit progress report and assurance update will be presented to the Audit Committee in October 2008 and this will be followed by quarterly updates thereafter.</p> <p>The demonstration of timely reporting, appropriate cover and alignment of the audit plan to the Councils developing risk management</p>	<p>Interim Head of Internal Audit to:</p> <p>Report progress against the 2008/09 audit plan at the 30 October 2008 meeting of the Audit Committee.</p> <p>Integrate internal audit report deadlines into the Audit Committee workplan by 31 December 2008.</p>

No.	Observation	Proposed action	Council response	Implementation details
			process will be an ongoing requirement culminating in the annual internal audit report and 2009/10 audit plan.	

Appendix 2 - Audit Committee presentation 11 July 2008

	Agenda								
<p>Manchester City Council</p> <p>Audit Committee workshop</p> <p>Nichola Crail & Paul Hughes</p> <p>11 July 2008</p> <p><small>© Grant Thornton UK LLP. All rights reserved.</small></p>	<table border="1"><tr><td data-bbox="1064 502 1265 574">Purpose of today</td><td data-bbox="1265 502 1825 574"><ul style="list-style-type: none">• Background• Scope of workshop</td></tr><tr><td data-bbox="1064 574 1265 718">Role and operation of Audit Committee</td><td data-bbox="1265 574 1825 718"><ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion</td></tr><tr><td data-bbox="1064 718 1265 861">Role of Assurance Providers (External and Internal Audit)</td><td data-bbox="1265 718 1825 861"><ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion</td></tr><tr><td data-bbox="1064 861 1265 1005">Skills and competencies</td><td data-bbox="1265 861 1825 1005"><ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion</td></tr></table>	Purpose of today	<ul style="list-style-type: none">• Background• Scope of workshop	Role and operation of Audit Committee	<ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion	Role of Assurance Providers (External and Internal Audit)	<ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion	Skills and competencies	<ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion
Purpose of today	<ul style="list-style-type: none">• Background• Scope of workshop								
Role and operation of Audit Committee	<ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion								
Role of Assurance Providers (External and Internal Audit)	<ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion								
Skills and competencies	<ul style="list-style-type: none">• What is the Audit Committee's view?• What does good practice say?• Gap analysis• Discussion								

Background: Where the Council wants to be

A level 4 integrated governance framework

Establish principal obligations and organisational objectives

Identify principal risks to achieving objectives

Identify and evaluate key controls to manage principal risks

Obtain assurances of effectiveness of key controls

Evaluate assurances and identify gaps in control/assurances

Action plan to address weakness and ensure implementation

Annual Governance Statement

Management / members obtain clear assurance that:

People at all levels understand what the Council wants to achieve and how good governance supports this

Risks to achievement of key objectives are routinely and comprehensively identified, including partnerships

There is strategic direction for how the Council will best control its risks and achieve required assurances

Controls are identified, recorded and evaluated to ensure that they are capable of managing the risk

Controls to manage risks of failing to achieve objectives are working as intended

Comprehensive recording of risks not fully covered by controls (due to gap in design or not working properly) takes place and the implications are considered

Remedial action is planned, monitored and implemented to reduce the risk of the Council failing to achieve its key objectives

There is annual open and balanced communication of the framework of controls, any significant control issues and what the Council is doing to address these

Background: Where the Council wants to be

Audit Committee

- Governance includes the efficient and effective discharge of Audit Committee roles and responsibilities
- A level 4 Audit Committee will, as a minimum:
 - have a clear role
 - comprise trained and skilled members
 - be open and transparent
 - drive improvements in Council governance
- Our work is to help facilitate self-assessment by you to identify opportunities to strengthen the Committee's challenge of the Council's arrangements

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Background:

Today

- To confirm understanding and identify training needs we surveyed members to assess the Committee's needs
- The survey considered members' understanding of
 - Role of the Committee
 - Skills and competencies required for the Committee
 - The role of Assurance Sources to the Committee
 - Operation of the Committee

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Today

- Feedback your understanding in each area
- Assess responses against good practice
- Consider any inconsistencies
- Identify any:
 - improvement opportunities for the Audit Committee
 - further training needs
 - areas where we can be of further help.

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Role of the Audit Committee

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Role of the Committee: feedback

Question	Assessment
I have a clear understanding of the role and purpose of the Audit Committee	3-5
I believe that the Audit Committee members have a common understanding of the Committee's role.	2-5
I think the respective roles of the Audit Committee and the Resources and Governance Overview and Scrutiny Committee are clear	4-5
Who is your first point of contact within the Council to obtain clarification on your role?	HIA/CEO/ City Treasurer/ City Solicitor/ HoDomServs

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Role of the Audit Committee: your comments

- Identify serious risk and respond
- Ensure the work of IA is fulfilled
- Prevent fraud
- Approving the Council's Accounts and monitoring response to Annual Audit and Inspection Letter
- Ensuring best value
- Getting assurance about the Council's Governance and Risk Management arrangements, control environment and Anti-Fraud and Corruption arrangements
- Interaction with Council employees and external auditors
- Liaise with external audit to make sure we comply

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Role of Audit Committee: your comments

- I understand audit but not clear when it should be raised to Council
- There are clearly political agendas in the conduct of the Council's audit
- Not all members may understand audit
- My understanding was that issues were sent to Scrutiny Committee rather than full Council
- Not all members appear to have an understanding of audit process or risk management
- Some members appear to think that AC represents an opportunity to attack the Council and score 'political' points

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CIPFA defines the purpose of an audit committee as:

- Provide **independent assurance** of the adequacy of the **risk management framework** and the associated control environment
- Provide **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
- **Oversee the financial reporting process.**
- **Review the AGS** (prior to approval by the organisation), which includes the results of the review of the effectiveness of the system of internal audit.

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What role should the AC take in discharging its purpose?

- Key role **overseeing/assessing effectiveness** of the the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and advising the Council on the adequacy and effectiveness of these 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**, including the AGS, properly reflect the risk environment and any actions required to improve it
- **Approve** (but not direct) internal audit's strategy, plan and **monitor performance**

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What role should the AC take in discharging its purpose?

- Review summary internal audit reports and the **main issues arising**, and **seek assurance that action has been taken** where necessary
- **Receive** the HIA's annual report
- Consider the findings of the review of effectiveness of the systems 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

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The differing roles of Scrutiny and ACs:

- **Scrutiny:** review policy and challenge whether the executive has made the right decisions to deliver policy goals
- **Audit:** provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the authority, including the scrutiny function, is operating effectively.
- Audit committee's judgments might be informed by the results of scrutiny activity within the authority

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Benefits of an effective Audit Committee

- Effective internal control and an AC cannot eliminate risk of serious fraud, misconduct or misrepresentation of the financial position, but an AC can:
 - **Raise greater awareness** of the need for internal control and the implementation of audit recommendations;
 - **Increase public confidence** in the objectivity and fairness of financial and other reporting;
 - **Reinforce the importance and independence** of internal and external audit and other similar review process (e.g. AGS);
 - Provide additional assurance through a process of **independent and objective review**.

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Pre-requisites of an effective audit committee:

- ACs deal with complex matters, sometimes requiring **specialist knowledge and advice**.
- AC members be **made aware** of key items that inform their work, e.g. governance and regulatory structures, the authority's VFM strategy and how it ensures its delivery and Gershon expectations and how they might affect the authority.
- AC members should be **sufficiently independent** from other key committees of the Council.
- AC meetings should be **free, open and without political influence**.

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Gap analysis...

- overseeing/assessing anti-fraud and corruption arrangements vs. prevent fraud
- seek assurance that action is being taken on risk issues vs. identify serious risk and respond
- review financial statements vs. approve council's accounts
- political agenda/political points vs. without political influence
- not all members have awareness of risk/audit vs. specialist knowledge and advice
- effective assurance relationships
- scrutiny vs. audit (role of and relationship with)
- raise awareness and increase public confidence

.....anything else

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Skills and competencies of an effective Audit Committee

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Skills and competencies of the Committee: feedback

Area of Assessment	Self Assessment
I have a clear understanding of the skills that are required to make up an effective Audit Committee.	3 - 4
I together with other members of the Audit Committee collectively have the requisite skills to deliver to the responsibilities of the Audit Committee.	3 - 4
I have a clear understanding of the skills I have been asked to bring to the Audit Committee.	3 - 5
I believe that I have the skills and personal attributes that are required of me as member of the Audit Committee.	3 - 4

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Skills and competencies of the Committee: feedback

Key elements of the effective operation of the Audit Committee:	Self Assessment
The Council has an effective process for assessing the skills/competencies needed by the Audit Committee on a regular basis.	1 - 4
The Council fills skills/competency gaps in the Audit Committee in a timely and effective manner.	2 - 3
There is a proactive approach by Council to understand and provide any training I need as a member of the Audit Committee.	2 - 4

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Gap analysis...personal attributes

	VI	QI	NI
Judgement	xxxxx		
Challenging	xxx	xx	
Integrity and probity	xxxxx		
Interpersonal skills		xxxxx	
Eye for detail	xxx	xx	
High ethical standards	xxxxx		
Question and debate	x	xxxx	
Other (common sense)	x		

? Independence ?

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Gap analysis...skills and knowledge

	Need	Got
Financial literacy	SESES	SESES
Accountancy	SENSS	NSSSS
Auditing	SESSS	SES-S
Commercial	NESSS	SESSS
Performance management/VfM	SSSSS	SESSS
Risk Management	SSSSS	SESSS
Governance	SSSES	SESES
LG knowledge	SESES	SESES
LG regulatory regime	SESES	SES-S
Major LG operational service areas	NSSNS	SSSSS
Human resources	SSSNE	SSSSE
Other (Common sense)	- E-N-	- E - - -

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Role of Assurance Providers (External Audit)

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Role of the External Audit: feedback

Question	Self Assessment
I have a clear understanding of the role of external audit for the Council	3 – 5
EA fulfils its responsibilities and provides the required assurances to the AC	4
EA makes an effective contribution to the AC, including clear reporting	3 – 5

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Role of External Audit – Your comments

- Compliance with Government guidelines
- Provide an objective and independent view on the way the Council carries out its business, particularly in the use of public resources: this links to the Committee through the receipt of reports on audits undertaken and the monitoring of the implementation of external audit recommendations
- Assurance that internal audit has conducted a reasonably thorough audit of the accounts
- (Cynically) to sign of the accounts to the satisfaction of external parties (e.g. Treasury)
- Specification of errors and confirmation of VfM
- To ensure that Accounts are proper record – Committee to probe reports



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Role of Assurance Providers: External Audit - What the Act says

The role of external audit is:

- to undertake an audit and report an opinion on whether the Council's accounts 'present fairly' the financial position of the Council ('accounts opinion')
- to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').



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Role of Assurance Providers: External Audit - What does this entail?

Accounts:

- review of internal audit work on core systems
- external audit review of controls that could impact on accounts accuracy (eg budgetary control and IT)
- audit of the accounts.

VFM in the use of resources – KLoE and local risk based work on:

- financial reporting
- financial management and financial standing
- internal control (including RM, IA, AC and anti-F&C)
- VFM



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Gap analysis...

- Responses highlight some of the detail of the role of external audit
- Some scope for better high level understanding of the role of external audit, including:
 - how our work is prescribed nationally, including the requirement for us to be independent
 - how our work is influenced by local risks
 - respective responsibilities of internal and external audit (e.g. re the accounts audit)
 - the scope and focus of our work

.....anything else?

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Role of Assurance Providers (Internal Audit)

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Role of the Internal Audit: feedback

Question	Self Assessment
I have a clear understanding of the role of internal audit for the Council.	4 - 5
IA fulfils its responsibilities and provides the required assurances to the AC	2 - 4
IA makes an effective contribution to the AC, including clear reporting	2 - 4

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Role of Internal Audit – Your comments

- To arrange that financial and other controls in place – AC to challenge
- Primary verification that the books of account of the Council reflect its true financial position
- To investigate any matters of suspected fraud/corruption....
- Monitoring
- To arrange for production of AGS – AC to query and challenge
- IA, being employed are immediately responsible to AC and any elected member
- Best value
- To provide an Annual Report (received by this Committee) giving an opinion on the adequacy and effectiveness of the Council's internal control environment: this report enables the Committee to question and probe into any areas reported as weaknesses

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Role of Assurance Providers: Internal Audit – What does CIPFA say?

- As an **assurance function** providing an independent and objective opinion to MCC on the governance, risk management and internal control environment by evaluating its effectiveness in achieving its objectives
- **Objectively examine, evaluate and report** on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources
- **Form opinions** about the risks and controls identified by management
- Annually to **give a formal opinion** on the control environment (IA will have done sufficient, evidenced work to form a supportable conclusion)

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Role of Assurance Providers: Internal Audit – What else does CIPFA say?

- **Work in partnership** with management to improve the control environment and assist the organisation in achieving its objectives
- **Where resources and skills exist**, provide additional services including **fraud-related and consultancy work**
- NO responsibility for the prevention or detection of fraud and corruption, but **HIA should be notified** of all suspected or detected fraud, corruption or impropriety
- At the request of management to investigate suspected fraud or corruption

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Gap analysis...

- Good consistency of understanding to build upon
- Items to consider:
 - to arrange that controls are in place vs provide assurance and improvement advice
 - primary verification that the books of account are accurate vs assurance over control environment
 - remit covers the whole organisation
 - some concerns elsewhere in responses that:
 - reporting insufficient
 - resourcing reduced

.....anything else?

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Role of the Committee in risk management and AC's use of risk management: feedback

Role of Assurance Providers (Risk Management)

Question	Self Assessment
I have a clear understanding of the Audit Committee's responsibility for risk management arrangements within the Council.	4
I understand how the committee should use the Council's formal risk management arrangements to inform its assurance requirements.	3 - 4

Role of Risk Management – Your comments

- Risk management should inform IA strategy...
- Evidence that risk registers are established and maintained in all service areas; clarified in the AGS
- To identify where the assets of the Council may be exposed to peril
- Identify where external intangible events may derail the Councils financial plans – principally (IMO) in the area of sovereign risk
- Need assurance that the Council's formal risk management arrangements are totally fit for purpose
- Ensure individual Council Depts. be aware of and manage their specific risks prior to presentation of accounts

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Role of Assurance Providers: Risk Management – What does good practice say?

- AC is responsible for assessing the organisation's risk management, control and governance arrangements, and advising the Council on the effectiveness and outcomes of these arrangements.
- To assess properly the adequacy of the organisation's risk management arrangements, the AC needs to establish
 - how key risks to objectives are identified, evaluated and managed
 - the rigour and comprehensiveness of the review process.

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Risk Management – What does good practice say?

The role of risk management:

- The audit committee's role is, however, a non-executive one.
- In enquiring into these matters it is not seeking to take on an executive function that properly belongs to management.
- Instead, it is aiming to satisfy itself that management has properly fulfilled its responsibilities.



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What should the AC's understanding of risk management be?

- The members of the AC should:
 - be given training in the basic concepts of risk management, including how the risks are identified, measured, mitigated and how the acceptable level of residual risk (exposure) is decided
 - understand the requirements of the Civil Contingencies Act and how the authority manages its own contingency and business recovery plans
 - understand the risks to key partners and suppliers on which the authority is reliant and how they are being managed
 - understand how the role of insurance and other risk financing is used within the risk management process

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Gap analysis...

.....anything else?

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Operation of the Committee and the Change Agenda

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Effective Committee operations?: feedback

There is an effective plan, which is developed in consultation with the Audit Committee that articulates work the Committee will undertake	3 – 4
The Council enables the Committee to focus on the key issues and has a risk-based approach to work	2 – 4
Any variations to planned work are clearly communicated and agreed with the Committee	3 – 4
Management alerts the Committee to emerging issues	3 – 4
I am satisfied that the Committees work plan is aligned to effectively respond to emerging issues	2 – 4
I have timely access to all the appropriate information to discharge my responsibilities effectively	2 - 5

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Impact of the Audit Committee?: feedback

The Audit Committee:	
- is efficient in the discharge of its business	3 – 5
- strikes an appropriate balance between robust oversight and strong relationships between the Council's officers and auditors	3 – 5
- has a positive impact within the Council	2 – 5*
- is credible within the Council (and to key stakeholders)	2 – 4*

* included a too early to say response

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What the AC does well.....

....and improvement opportunities

- ✓ Query what is not immediately apparent to lay person
 - ✓ Preparation (read and analyse all reports received)
 - ✓ Questioning/challenging
 - ✓ Request further information
 - ✓ Overall assessment of the accounts
- × Ranking of risks
 - × Seek more pro-active recommendations
 - × Think about dealing with draft accounts at a pre-meeting
 - × Needs departmental information
 - × Possibly straying beyond remit

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How is AC sub-optimal.....

....how could impact be improved?

- × AC is only emerging in its own right and the Council is not aware of its deliberations
 - × There is insufficient induction and training for new Cmttee Members
- ✓ Reports to internal scrutiny on audit
 - ✓ Have papers available longer in advance
 - ✓ Training for members (outside council)
 - ✓ Regular monitoring reports on IA from each Dept.
 - ✓ Demand better reports and more detail, especially from IA
 - ✓ Hold the sort of exercise that should result from the analysis of these questionnaires and do as a regular annual event.

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Instigating change: 3 learning areas...

List up to three key specific skills, competency or knowledge you currently lack, which hinders your ability to fully discharge your Audit Committee responsibilities?

Little experience of HR in large orgs.	Lack of regular knowledge of municipal accounts	Would prefer more monitoring reports	Personal practical experience tends to be in commercial organisations (all)
Individual cent. govt state benefits,	How each department feeds into internal audit	Non-payments or deducted payments due to the council in a financial year	My experience of Risk Management tends to be empirical (but prescient)

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