



Draft Internal Audit Report

NHDC - Review of the Effectiveness of the Finance, Audit and Risk Committee 2016/17

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Issued to: Members of the Finance, Audit and Risk Committee

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1. BACKGROUND

- 1.1 'Audit Committees are a key element of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 1.2 The purpose of an audit committee is to provide to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.' CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2013
- 1.3 The Code of Practice of Internal Audit in Local Government 2006 states that the 'Head of Internal Audit should participate in the committee's review of its own remit and effectiveness.' For the 2016/17 review, this function was delegated to the SIAS Audit Manager responsible for providing internal audit services to NHDC.
- 1.4 This review provides Members with an opportunity to reflect on the effectiveness of the Finance, Audit and Risk Committee (the Committee) during the 2016/17 civic year. Its findings and the Chair's Assurance Statement will inform the Council's 2016/17 Annual Governance Statement.
- 1.5 It also provides assurance to Cabinet on the effectiveness of risk management and internal control arrangements and the processes in place to support the production of the annual accounts.

2. 2016/17 REVIEW

Governance

- 2.1 The Committee met six times during the civic year 2016/17. It is required to meet five times in order to comply with its terms of reference with the Chair or a Proper Officer able to call extraordinary meetings should this be considered necessary or appropriate. In determining the annual schedule of meetings for 2016/17, the Chairman agreed that the practicalities of the timings of reports that the Committee is required to review meant that six meetings were required
- 2.2 Meetings were attended by the Strategic Director of Finance, Policy and Governance and her representatives, with representatives of the Shared Internal Audit Service, the Shared Anti-Fraud Service, Ernst & Young and other council services attending as required. Appropriate officer attendance ensured that Committee members could seek assurances from suitably qualified individuals.
- 2.3 All meetings were quorate and all members of the Committee attended at least 50% of the meetings held. High levels of attendance from all members

are vital to ensure that the Committee remains effective and has a positive impact across the Council.

- 2.4 The Committee complies with the proportionality of seats to political parties of local authority rules as laid out in the Local Government & Housing Act 1989. During the civic year 2016/17 it was chaired by Councillor Michael Weeks with Councillor Simon Harwood acting as Vice Chair. Appropriate levels of independence were maintained from other key Council committees.
- 2.5 The Committee had access to other committees as necessary, as evidenced for example, by its referral to Cabinet of action required in relation to two high priority recommendations (March 2017). In this way it fulfils its role of making recommendations. The Committee has decision making powers in respect of all matters to do with the Annual Accounts and can either approve (generally where they are happy) or make recommendations on SIAS reports to another Committee if it thinks another body needs to take action.
- 2.6 The Committee's Terms of Reference (see Appendix A) are included in the Council's Constitution and were most recently reviewed in April 2017. Comparison against 'CIPFA's Position Statement: Audit Committees in Local Authorities and Police' indicates that the Committee's Terms of Reference cover all expected core functions. The Committee also has a wider role which encompasses:
 - Reviewing and monitoring treasury management arrangements
 - Supporting ethical values and reviewing arrangements to achieve these values.

This additional activity is appropriate given the Committee's remit to support good governance.

- 2.7 It is noted that the length of the agenda can in some instances, result in extended meetings. It is suggested that the Committee examines the format in which information is presented and confirms its appropriateness in terms of focus on the key control, risk and governance issues which underpin successful achievement of the Council's objectives. (see Section 4. Below)
- 2.8 The effectiveness of the Committee in discharging its core functions is outlined in the paragraphs below.

Annual Governance Statement

- 2.9 A draft of the proposed annual governance statement was presented for comment at the June Committee with the final document tabled at the September meeting. The minutes of both Committees record that Members asked questions. Action was requested of officers at the June meeting with the response recorded in the September meeting minutes. Progress against the implementation of AGS recommendations is monitored.

Internal audit

- 2.10 At its June 2017 meeting, the Committee will receive confirmation, that the Council's internal audit service, provided by the Shared Internal Audit Service (SIAS), was substantially compliant with the requirements of the Public Sector Internal Audit Standards during 2016/17. The Committee will be asked to note two areas of intentional non-compliance (see Annual Assurance Opinion and Internal Audit Annual Report).
- 2.11 Throughout the year Members scrutinised the quarterly update reports and asked questions as necessary to gain assurance that:
- Progress would be sufficient to allow the Head of Assurance to give an annual assurance opinion
 - High priority recommendations were being implemented in line with agreed timelines.
- 2.12 Members can call in any NHDC Senior Manager to give a more in-depth update on the progress of implementing recommendations. This was not deemed necessary in 2016/17. The Committee did, however, request single issue reports to enhance their understanding of particular key risk areas such as the on-going financial and operational viability of contractors (September 2016).
- 2.13 The proposed audit plan was presented at the March 2017 meeting having previously been discussed with the Committee Chair following an internal planning process.
- 2.14 During 2016/17, access to the Committee Chair was not restricted and his views could be sought as and when necessary.

Risk Management

- 2.15 During 2016/17, risk management support provided by HCC's Risk and Insurance Manager (formally the Performance and Risk Manager at NHDC) was gradually withdrawn. Risk management activity at the Council is now undertaken by the NHDC Performance Improvement Officer overseen by the NHDC Controls, Performance & Risk Manager. SIAS undertook a risk management audit in March 2017 which provided assurance to the Committee that adequate and effective risk management arrangements and coverage are provided under the new arrangements.
- 2.16 Quarterly updates on key risks and an annual risk report allowed the Committee to raise questions about the management of specific risks and monitor the effectiveness of mitigating actions over time.

Anti-Fraud Arrangements

- 2.17 The Council's anti-fraud activity is provided by the Shared Anti-Fraud Service (SAFS). Twice yearly updates allow the Committee to assess

progress of the service against the targets set. Progress during 2016/17 was above target.

External Audit

- 2.18 The Council's external auditors, Ernst and Young, presented all required reports and statements. Clarification was sought on points as appropriate.
- 2.19 External audit representatives contributed to the on-going training of members of the Committee by providing relevant update information in-year. (Local Government Audit Committee Briefing, March 2017)
- 2.20 The paragraphs below outline other requirements of an effective audit committee.

Culture and relationships

- 2.21 All meetings during 2016/17 were held in a free and open manner and were not influenced by party politics. Relationships between Members and officers were supportive with both parties seeking to serve the interests of the Council and the community in their respective roles. As the minutes of meetings show, officers were questioned over the content of reports as appropriate.

Training and Development

- 2.22 At the request of the Vice Chair, SIAS update reports now provide high level detail of medium priority recommendations. This has broadened Members' oversight of the effectiveness of the Council's control environment.
- 2.23 Members asked how they might contribute to the scoping of a particular internal audit. The existing agreed practice of Members channelling their comments through the Chair of the Committee was confirmed. During 2016/17 no Member contributions were made to the scope of an individual audit as has been the case in previous years.
- 2.24 Members have an open invitation to accompany an auditor during an audit to gain insight into the practicalities of the audit process. During 2016/17 no Members availed themselves of this opportunity.
- 2.25 The skills and experiences of all Members were not assessed in 2016/17 nor was induction training undertaken. It is recommended that this exercise is undertaken in 2017/18 and training arranged as necessary.
- 2.26 Recommendations have been made in section 4 below in this regard.

3. OVERALL AUDIT OPINION

- 3.1 This review has evidenced that the FAR Committee is substantially compliant with the CIPFA best practice approach and consequently is an effective scrutiny body for financial, audit, risk and internal control matters.
- 3.2 This report provides good levels of assurance to support the Council's Annual Governance Statement 2016/17.

4. LOOKING AHEAD

- 4.1 In looking forward to 2017/18 and beyond, and given the significant financial and other pressures the Council faces, the importance of an effective audit committee is critical.
- 4.2 To this end it is recommended that:

Learning and development

- All members complete a skills self-assessment to identify areas of strength and training needs
- A training programme is developed to satisfy any training needs identified
- An induction programme is implemented for all new members
- The Shared Internal Audit Service circulates Shared Learning Newsletters to Committee members to support ongoing learning

Committee Business

- Proposed agendas are scrutinised to confirm they are risk-based, focussed and manageable
- Information presented is confirmed as being in a format that allows members to focus on key risk, control and governance issues which contribute to the achievement of the Council's objectives
- Members challenge processes, as appropriate, to ensure there is an appropriate balance between risk and control given the climate in which the Council now operates

Communication

- More regular meetings are held outside the committee schedule between the Chair of the Committee and Committee contributors

Overall Committee Effectiveness

- Members discuss the benefits of a peer review /self-evaluation.

Appendix A - Terms of Reference, Finance, Audit and Risk Committee

SECTION 10

10. OTHER COMMITTEES

10.1 Finance, Audit and Risk Committee

10.1.1 Role & Functions

The Role and functions of the Finance, Audit and Risk Committee shall be as follows:

- (a) Finance, Audit and Risk; and
- (b) the oversight and approval of Financial, Audit and Risk Management matters (not Otherwise the responsibility of the Cabinet, Full Council or Standards Committee) as set out in the Terms of Reference.

10.1.2 Membership

No more than seven members shall be appointed to the Finance, Audit and Risk Committee. The Chairman shall be appointed at the annual meeting of the Council.

10.1.3 Quorum

The Quorum for a meeting of the Finance, Audit and Risk Committee shall be three (3) voting members of that Committee.

10.1.4 Proceedings of the Finance, Audit and Risk Committee.

There shall be five regular meetings of the Committee in each year. In addition, extraordinary meetings may be called from time to time, as and when appropriate. An extraordinary meeting may be called by the Chairman of the Committee or by the Proper Officer if he/she considers it is necessary or appropriate.

10.1.5 Terms of Reference:

Finance

- (a) To review and approve the Statement of Accounts.
- (b) To review and recommend the Medium Term Financial Strategy to Cabinet (including, although not limited to consideration of associated procedures, policies and process).
- (c) To consider the Council's policy in relation to Treasury Management and make recommendations on the Annual Treasury Management and Investment Strategy, and Treasury Management Code of Practice.
- (d) Assist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk and community participation in the budget process.
- (f) To review the financial performance of the Council in relation to its policy

Appendix A - Terms of Reference, Finance, Audit and Risk Committee

objectives, and budgetary amounts, and to make recommendations to Cabinet (unless legally reserved to Full Council) on any matter arising out of the finance monitoring and review process within the terms of this Committee.

- (g) To maintain an overview of the Council's Constitution in respect of Contract Procurement Rules and Financial Regulations, consider any major changes and make recommendations to Council for approval.

Audit & Governance

Internal Audit

- (h) To ensure that an annual review of the effectiveness of internal control (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement.
- (i) To consider the Shared Internal Audit Service ('SIAS') annual report and opinion, summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements (including, although not limited to agreed high level recommendations not implemented).
- (j) To review the SIAS arrangements, including performance, effectiveness, consideration of any associated reports and approve/ make recommendations as appropriate.
- (k) To consider and approve the Annual Audit Plan, Code of Audit Practice and Statement of Responsibilities (including any drafts, where appropriate).
- (l) To approve the Code of Corporate Governance.
- (m) To review and comment on the development of anti-fraud and anti-corruption strategies, 'Raising Concerns at Work' and Whistleblowing Policy.
- (n) To review the Shared Anti-Fraud Service ('SAFS') arrangements, including performance, effectiveness, and consideration of any associated reports and approve/ make recommendations as appropriate.

External Audit

- (o) (Subject to enabling legislation) to appoint the Council's Auditor Panel (if expedient, with one or more other relevant authority).
- (p) To appoint (when this requirement arises) the Council's external Local Auditor, having consulted and taken into account the advice of the Council's Auditor Panel.
- (q) To consider (and to approve where required) the Annual Audit letter to Members, Annual Audit and Inspection Fee Letter.
- (r) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (s) To receive reports or recommendations from the external Local Auditor, other than public interest reports (which shall be direct to Full Council).

Appendix A - Terms of Reference, Finance, Audit and Risk Committee

Risk

- (t) To monitor the effective development and operation of risk management and corporate governance, agree actions (where appropriate) and make recommendations to Cabinet.

General

- (u) To review any issue referred to it by the Chief Executive, Statutory Officer or Director, or any Council body and undertake such other functions that may be delegated to it from time to time by Council.
- (v) To bring to the attention of Council financial, audit or risk concerns, with recommendations as to how these matters should be remedied.
- (w) When undertaking any of the afore-stated functions to consider compliance with Council policies, other public standards, controls and best practice.

Appendix B – Committee Action Plan

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1	<p><u>Learning and Development</u></p> <p>The Committee does not have a clearly defined learning and development programme in place which supports both the induction of new members to the committee and the on-going development of more established committee members.</p> <p><i>Associated Risk</i> Current arrangements leave members exposed to the risk that they are potentially unable to evidence that they are appropriately skilled to carry out the roles and responsibilities of an Audit committee member.</p>	Medium	<p>It is recommended that:</p> <ul style="list-style-type: none"> • All members complete a skills self-assessment to identify areas of strength and training need • A training programme is developed to satisfy any training needs identified • An induction programme is developed and implemented for all new members • The Shared Internal Audit Service circulates Shared Learning Newsletters to Committee members to support ongoing learning. 		

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No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
2.	<p><u>Committee Business</u></p> <p>The business of the committee can, on occasion be lengthy with members asked to comment on a wide range of issues in a single meeting.</p> <p><i>Associated Risk</i> The presentation of large volumes of information may prevent members from identifying and focussing on key risk, control and governance issues. This would consequently have a negative impact on the effectiveness of the Committee and potentially diminish its contribution to the effective running of the Council.</p>	Medium	<p>It is recommended that:</p> <ul style="list-style-type: none"> Proposed agendas are scrutinised to confirm they are risk-based, focussed and manageable Information presented is confirmed as being in a format that allows members to focus on key risk, control and governance issues which contribute to the achievement of the Council's objectives Members challenge processes, as appropriate, to ensure there is an appropriate balance between risk and control given the climate in which the Council now operates. 		
3.	<p><u>Peer review</u></p> <p>An external review of the effectiveness of the committee has not been undertaken.</p>	Merits attention	<p>It is recommended that Members explore the benefits</p>		

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No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p><i>Associated Opportunity</i> An external review of the operation of the committee would allow it to bench mark its activity against that of other organisations and potentially implement changes that would enhance its effectiveness.</p>		that could accrue from commissioning an external peer review.		
4.	<p><u>Communications</u></p> <p>Currently there are no formal arrangements in place to allow all contributors to the Committee to meet with the Chair on a regular basis.</p> <p><i>Associated opportunity</i> Agreement of a timetable for contact outside committee meetings would allow time to anticipate and discuss issues to support a deeper understanding of roles.</p>	Merits attention	It is recommended that more regular meetings are held outside the committee schedule between the Chair of the Committee and Committee contributors are considered.		