



## **Final Internal Audit Report**

# **North Herts District Council – Review of the Effectiveness of the Finance, Audit and Risk Committee 2017/18**

**May 2018**

|                           |  |
|---------------------------|--|
| <b>Issued to:</b>         | Members of the Finance, Audit and Risk Committee   |
| <b>Copied to:</b>         | Ian Couper – Service Director (Resources)<br>Jeanette Thompson – Service Director (Legal and Community)<br>David Scholes – Chief Executive |
| <b>Report Status:</b>     | Final  |
| <b>Reference:</b>         | N137/18/001  |
| <b>Overall Assurance:</b> | Not Applicable   |

## 1. EXECUTIVE SUMMARY

### 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 2018
- 1.3 The Public Sector Internal Audit Standards states that the 'Head of Internal Audit should participate in the committee's review of its own remit and effectiveness.' For the 2017/18 review, this function was delegated to the SIAS Client Audit Manager responsible for providing internal audit services to North Herts District Council ('the Council').
- 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 2017/18 civic year. Its findings and the Chair's Assurance Statement will inform the Council's 2017/18 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. 2017/18 REVIEW

- 2.1 The 2017/18 review has been completed reviewing relevant evidence available.

| Governance |  |
|------------|--|
| Meetings   | <p>The Committee met six times during the 2017/18 civic year. This is fully compliant with the terms of reference for 2017/18, which states 'there shall be six regular meetings in each year'.</p> <p>The Committee met in June, September, November, December (2017), January and March (2018).</p>  |
| Attendance | <p>All meetings were quorate (three voting members). Throughout 2017/18, there were three members that attended under half the meetings of the Committee. For two members attending fewer than 50% of meetings, they had ensured representatives had been sent on their behalf.</p> <p>It is vital that a high level of member attendance is achieved to ensure that the Committee remains effective and has a positive impact across the Council.</p> |

|                                  |   |
|----------------------------------|---|
|                                  | <p>The meetings were attended by various officer and partner representatives. Meetings were attended by the Head of Finance, Performance and Asset Management, with representatives from the Shared Internal Audit Service (SIAS), Shared Anti-Fraud Service (SAFS), EY and other Council services as required.</p> <p>Appropriate officer attendance ensured the Committee and its members received assurance from suitably qualified individuals.</p>   |
| Composition                      | <p>Membership of the Committee comprises of seven members and complies with the proportionality of seats to political parties of local authority rules as laid out in the Local Government &amp; Housing Act 1989.</p> <p>During 2017/18, the Committee was chaired by Councillor Terry Hone with Councillor Simon Harwood acting as Vice-Chair.</p> <p>There was appropriate independence maintained from other key Council committees.</p>  |
| Terms of Reference and Reporting | <p>The Committees terms of reference are included in the Council's Constitution, most recently reviewed in April 2018.</p> <p>A comparison between the Committee's terms of reference and 'CIPFA's Position Statement: Audit Committees in Local Authorities and Police' 2018 edition, as well as a review of Committee minutes, indicates that all of the expected core functions are discharged by the Committee.</p> <p>At the next review of the terms of reference, the Council should consider including a 'Statement of Purpose' for the Committee (as per the guidance in the CIPFA's 'Audit Committees - Practical Guidance for Local Authorities and Police 2018 edition').</p> <p>The Committee discussed an annual report of the Committees work and achievements at the first meeting of each civic year. Once agreed, this is reported to Full Council to note.</p> |
| Access and Agenda                | <p>The Committee had access to other committees as necessary, as evidenced by referrals to Cabinet.</p> <p>We have noted that the length of the agenda can in some instances, result in extended meetings. It is</p>  |

|  |  |
|--|--|
|  | <p>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.</p> |
|--|--|

2.2 The effectiveness of the Committee in discharging its core functions are outlined below:

| <b>Core Function</b> |  |
|----------------------|--|
| Internal Audit       | <p>At its June 2018 meeting, the Committee will receive confirmation that the Council's internal audit service, provided by SIAS, was substantially compliant with the Public Sector Internal Audit Standards during 2017/18. The Committee will be asked to note two areas of known non-compliance (see Annual Assurance Opinion and Internal Audit Annual Report).</p> <p>Throughout the year, the Committee receives and scrutinises quarterly update reports and asks questions as necessary to gain assurance that:</p> <ul style="list-style-type: none"> <li>a) Progress would be sufficient to allow the Head of Internal Audit to provide an annual assurance opinion; and</li> <li>b) High priority recommendations were being implemented in line with the agreed timescales.</li> </ul> <p>Members can call in any Senior Officers to provide more in-depth updates on the progress of implementing recommendations. This was not deemed necessary in 2017/18. However, on occasion as Senior Officers have been present at the Committee for other purposes, the Committee has used the opportunity to receive updates from these officers. An example of this was in the March 2018 meeting, the Head of Revenues, Benefits and IT was present and Members had the opportunity to question the status of an outstanding high priority recommendation, resulting in the Committee being satisfied with the progress made.</p> <p>The proposed audit plan was presented to the March 2018 meeting having previously followed an internal planning process.</p> <p>During 2017/18, access to the Committee Chair was not restricted and his views could be sought as and when necessary. This access includes, but is not limited to, the official Chairs Briefing that take place immediately before each meeting.</p> |

|                             |  |
|-----------------------------|--|
| External Audit              | <p>The Council's external auditors, EY, presented all required reports and statements. Clarification was sought on points as appropriate.</p> <p>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 2018).</p>   |
| Risk Management             | <p>Risk management activities at the Council are undertaken by the Performance Improvement Officer overseen by the Controls, Performance and Risk Manager.</p> <p>Officers provide a quarterly update on key risks and an annual report allowed the Committee to raise questions about the management of specific risks or monitor the effectiveness of mitigating actions over time. The Committee did not call any risk owners to meetings in 2017/18.</p> |
| Annual Governance Statement | <p>A draft of the proposed Annual Governance Statement was presented for comment at the June 2017 meeting, with the final statement tabled at the September meeting.</p> <p>Progress against the implementation of AGS recommendations is monitored.</p>   |
| Anti-Fraud Arrangements     | <p>The Council's anti-fraud activity is provided by the Shared Anti-Fraud Service (SAFS). The Committee receives twice yearly updates that allow the Committee to assess progress of the service against the targets set. The March 2018 update demonstrated that progress during 2017/18 was above target.</p>  |

2.3 Non-core functions of the Audit Committee, as defined by the CIPFA guidance, have not been included in this review. An example of this for the Council is Treasury Management.

2.4 The paragraphs below outline other requirements of an effective Audit Committee.

#### Culture and Relationships

2.5 All meetings during 2017/18 were held in a free and open manner and were not influenced by party politics, ensuring that the Committee was allowed to operate with the best interests of the Council and communities at the fore. 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

- 2.6 During 2017/18, we completed an internal audit relating to Member training and development. This was an advisory review that provided the Council with benchmarking data, an analysis of the current offering and some proposed actions to ensure Members receive sufficient training to undertake their role.
- 2.7 The skills and experiences of all Members were not assessed in 2017/18 nor was induction training undertaken. It is recommended that this exercise is undertaken in 2018/19 and training arranged as necessary.
- 2.8 Members have an open invitation to accompany an auditor during an audit to gain insight into the practicalities of the audit process. During 2017/18 no Members availed themselves of this opportunity.

### **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 2017/18.

### **4. LOOKING AHEAD**

- 4.1 In looking forward to 2018/19 and beyond and given the significant financial and other pressures the Council faces, the importance of an effective Audit Committee is critical. With this in mind, it is our intention to complete a more thorough review of the effectiveness of the Finance, Audit and Risk Committee in future years. It is proposed that this will involve Member engagement and consultation on the work of the Committee.
- 4.2 With this in mind, we advise that the following actions are completed to ensure ongoing compliance with the CIPFA best practice guidance and to maximise the effectiveness of the FAR Committee:

#### Learning and Development

- All Members complete a skills self-assessment to identify areas of strength and training needs;
- A training programme is developed to address any weaknesses in the Committee or training needs identified;
- An induction programme is implemented for all new members.

#### Committee Business

- At the next review of the terms of reference, the Council should consider including a 'Statement of Purpose' for the Committee (as per the guidance in the CIPFA's 'Audit Committees - Practical Guidance for Local Authorities and Police 2018 edition').

- Proposed agendas are scrutinised by Democratic Services and the Chair of the Committee to confirm that they are risk-based, focussed and manageable;
- Information is presented to the Committee in a format that allows members to focus on the key risks, internal controls and governance issues which may impact on the Council ability to meet its objectives;
- Members challenge processes, as appropriate, to ensure there is an appropriate balance between risk and control.

#### Communication

- Regular meetings held outside the committee schedule between the Chair of the Committee and Committee contributors (officers).

#### Overall Committee Effectiveness

- Members to complete the self-assessment of effectiveness included in CIPFA's 'Audit Committees – Practical Guidance for Local Authorities and Police 2018 edition';
- Members to consider a peer review to assess the effectiveness of the FAR Committee.