

ISLE OF ANGLESEY COUNTY COUNCIL

COMMITTEE:	AUDIT COMMITTEE
DATE:	05 FEBRUARY 2013
TITLE OF REPORT:	ENHANCING THE AUDIT COMMITTEE
REPORT BY:	HEAD OF SERVICE – AUDIT
ACTION:	AGREE IMPROVEMENT ACTION PLANS FOR 2013-14

1. INTRODUCTION

- 1.1 The Audit Committee carries out a formal review of its effectiveness annually in line with the good practice set out in the CIPFA Audit Committees: Practical Guidance for Local Authorities. The first such self-assessment by this committee was adopted in January 2010.
- 1.2 The CIPFA Audit Committees: Practical Guidance for Local Authorities provides a good framework for this work, and includes a self-assessment questionnaire/checklist.
- 1.3 In order to facilitate the measurement of effectiveness and improvement year to year 'spider charts' are produced annually summarising the outcome of the workshops in a visible manner. The charts are used to determine the direction of travel between years regarding compliance with the best practice set out in the questionnaire/checklist. (See Appendix A).
- 1.4 Much of the guidance emphasises the specialist knowledge required by Audit Committee Members. Training sessions have been provided during the year on Risk Management, Treasury Management and on the role of Members in relation to the review of the Statement of Accounts. An induction session for new Members of the Audit Committee was also held this year.

2. OUTCOME OF 2013 EFFECTIVENESS SELF-ASSESSMENT

- 2.1 A workshop was held on 16 January 2013 with the Head of Function – Resources, Heads of Service – Finance, Head of Service - Audit and the Benefit Investigator and was also attended by seven members of the Audit Committee.
- 2.2 Areas for improvement identified at this workshop included enhancing induction training and individual training needs analysis for Members. Other areas identified were the clarification of the roles and responsibilities of the Audit and Scrutiny Committees; especially in relation to Risk Management and the need to adopt Counter Fraud and Corruption guidelines against which to measure the effectiveness of the Council's existing arrangements. Member also expressed a desire to have increased liaison in relation to the External Audit planning process (including on fees) and being appraised of External Audit performance on a regular basis.

3. COUNTER FRAUD ARRANGEMENTS

3.1 In 2012-13 there was a revision of the Prevention of Fraud and Corruption Policy which was recommended for approval by the Audit Committee to the Executive at its meeting held on 25 September 2012. Also recommended for approval by this meeting were the Fraud Response Plan and the Money Laundering Policy.

3.2 The January 2013 workshop included a presentation from the Benefit Investigator on Benefit counter fraud arrangements and performance in 2012-13.

3.3 The CIPFA Audit Committees: Practical Guidance for Local Authorities includes reference to the role of the Audit Committee in ensuring that actions to counter fraud and corruption are being implemented. The Terms of Reference of the Audit Committee reflect this and paragraph 3.4.8.1.3 of the Constitution states that

'The Committee will also advise on the Council's policy for the Prevention of Fraud and Corruption including:

(i) Reviewing the effectiveness of the policy;

(ii) To receive an annual report from the Corporate Director – Finance on the implementation of the policy.'

3.4 The CIPFA Audit Committees: Practical Guidance for Local Authorities includes the adoption of "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" and for the Committee to ensure that the included actions are being implemented. In April 2012 the Head of Service – Audit and the Benefits Investigator, on behalf of the Audit Committee, reviewed the Council's Counter Fraud arrangements against similar guidance contained in the CIPFA Fraud Risk Evaluation Diagnostic (FRED1). The review found significant gaps in current arrangements. This is an area, therefore, that requires some action by the Committee to obtain assurance that the current arrangements are effective and are being implemented.

3.5 Before formally adopting the CIPFA "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" the Committee is advised to undertake a short fraud awareness session including how this CIPFA guidance can best be utilised. In this respect the CIPFA Red Book 2 'Managing the Risk of Fraud' can be used to benchmark the Council's counter-fraud capability and governance arrangements. By adopting its guidance, the Committee will be showing a commitment to a comprehensive approach to reducing fraud losses within the Council to a minimum.

3.6 It is recommended, therefore, that a short Fraud Awareness session is produced for Members of the Audit Committee to provide a background to current arrangements and issues and to include the requirements of the Managing the Risk of Fraud guidance and how it can be used to meet the Audit Committee's responsibilities in relation to countering fraud and corruption within and against the Council.

4. FURTHER ACTION

4.1 Enhancing the Committee is an ongoing process, with review of processes and the results of self-assessment leading to continual review, update and improvement. The 2013 assessments, while demonstrating improvement on 2012, also show a number of opportunities for further development in the workings of the Committee.

4.2 The table at Appendix B gives the outcome of the January 2013 workshop against the self-assessment questions compared with the results for 2011-12. The Committee is requested to consider the outcome of the workshop, to amend if thought necessary, then to endorse it formally.

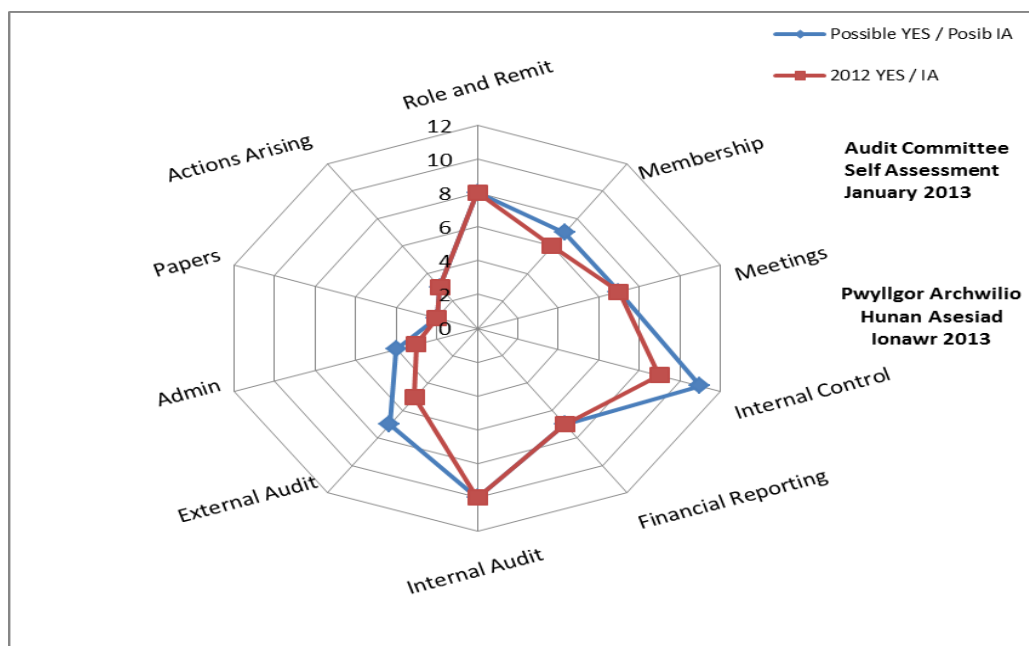
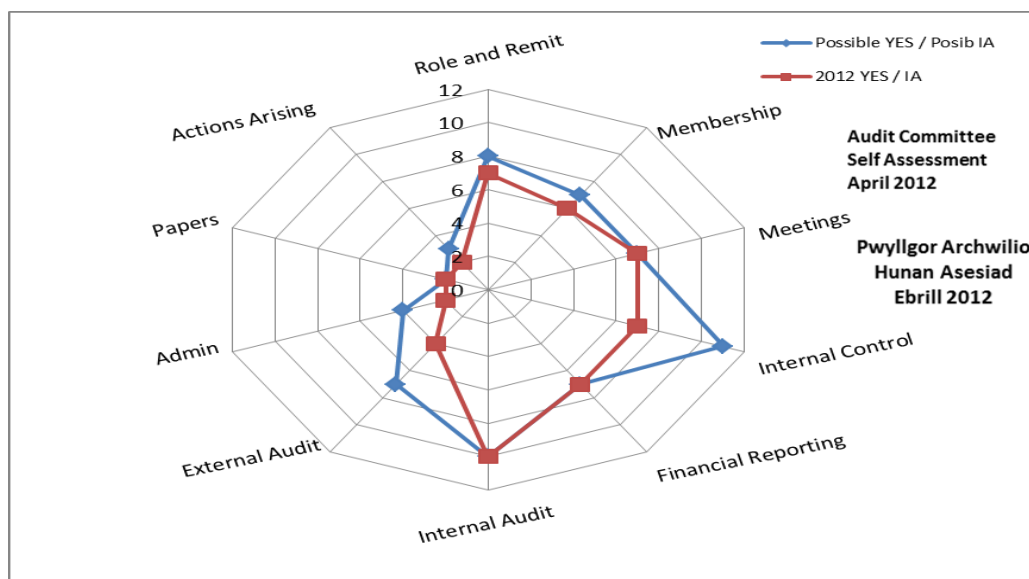
4.3 The Table at Appendix C shows the Improvement Action Plan for 2013-14 resulting from the work of the Committee at the January 3013 Workshop.

5. CONCLUSIONS AND RECOMMENDATIONS

It is recommended that the Committee:-

- 5.1** adopt the outcome of the self-assessment of the Committee's effectiveness including the Improvement Action Plan at Appendix C;
- 5.2** includes a fraud awareness training session in its Training schedule for 2013-14 to inform its opinion on the effectiveness of the Council's existing Counter Fraud and Corruption arrangements; and
- 5.3** includes in its work plan for 2013-14 revised self-assessment on the Committee's effectiveness.

‘SPIDER GRAPHS’ OF OUTCOME FROM SELF-ASSESSMENTS IN APRIL 2012 AND JANUARY 2013



NB – If all areas of the self-assessment were met the inside line would meet the outside line. The greater the divergence between the lines the less compliant the Committee is with the Self –Assessment best practice.

The graphs show a direction of travel towards the Committee improving its position against best practice. The areas identified above for initial further work are Self-Assessment areas 2, 4 and 7 which relate to:

Area 2 – Membership – enhancement of the TNA of Audit Committee Members.

Area 4 – Internal Control –Need to adopt the “Managing the Risk of Fraud – Actions to Counter Fraud and Corruption” guidance, or equivalent, in order to provide assurance on the arrangements in place within the Council and to be able to monitor the effectiveness of such arrangements.

Area 7 – External Audit – enhanced information on EA planning of work, performance monitoring and fees.

The Improvement Action Plan at Appendix C sets out how improvement is to be continued.

AUDIT COMMITTEE SELF-ASSESSMENT CHECKLIST
REVISED – 16 January 2013

ESTABLISHMENT, OPERATION AND DUTIES			
1 Role and Remit			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
1.1	Does the Audit Committee have written terms of reference?	Yes – in Constitution	Yes – in the Constitution - However, need to clarify relationship and responsibility for similar TORs for other Committees - e.g. Corporate Scrutiny in areas such as Risk Management.
1.2	Do the terms of reference cover the core functions of an Audit Committee as identified in the CIPFA guidance?	Yes – But need to be updated	Yes – have been updated and now include requirements of the Local Measure.
1.3	Are the terms of reference approved by the Council and reviewed periodically?	No – needs to be reviewed and updated in 2012-13	Yes- have been in 2012-13 and updated.
1.4	Has the Audit Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Yes – But lateness of papers has been a serious weakness in 2011-12 – Needs to be addressed	Yes
1.5	Can the Audit Committee access other Committees and full Council as necessary?	Yes - In theory, but rarely exercised	Yes – But some discussion on how this would be undertaken in practice – to be looked at as part of response to 1.1 above.
1.6	Does the Authority's Statement on Internal Control include a description of the Audit Committee's establishment and activities?	Yes –included in Annual Governance Statement	Yes – Now also have the Local Code of Governance.
1.7	Does the Audit Committee periodically assess its own effectiveness?	Yes – Annually - since December 2009 – latest April 2012.	Yes – again in January 2013.
1.8	Does the Audit Committee make a formal annual report on its work and performance during the year to full Council?	Yes – started to do so in 2011	Yes – annual report from the Chair.
1.7	Does the Audit Committee periodically assess its own effectiveness?	Yes – Annually - since December 2009 – latest April 2012.	Yes – again in January 2013.
1.8	Does the Audit Committee make a formal annual report on its work and performance during the year to full Council?	Yes – started to do so in 2011	Yes – annual report from the Chair.
2 Membership, Induction and Training			
2.1	Has the membership of the Audit Committee been formally agreed and a quorum set?	Yes - in constitution	Yes – in TORs in the Constitution.
2.2	Is the Chair independent of the Executive function?	Yes - The Chair is not a member of groups represented on the Executive.	Yes
2.3	Has the Audit Committee Chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Yes – ex portfolio holder for Finance – ex company director – plus internal training during the year.	Yes – there was discussion on the form such training should take – Requested that further training on SofA be undertaken prior to review this year.
2.4	Are new Audit Committee Members provided with an appropriate induction?	No – need to produce an induction pack – supported by initial induction meeting with Section 151 Officer and Head of Audit – needs to be in place for any new members in May. Could adopt induction material from other Council we could use?	Yes – an induction session for new and existing Members of the Committee was held this year. However, it was felt by Members that the induction for Members of the Committee following the election of the new Council in May was especially relevant and should be more comprehensive.
2.5	Have all Members' skills and experiences been assessed and training given for identified gaps?	Yes but – formal TNA questionnaire to be introduced for all Members.	NO – Members felt that although there is a Corporate process of TNA based on Peer Review and undertaken by HR, more could be done to identify the training needs of Committee Members themselves.

2 Membership, Induction and Training			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
			<p>Comment was also made that in some instances identifying needs could be achieved but the resources/skills were not always available to meet them.</p> <p>A specific TNA for AC Members was needed with links to induction and peer assessments.</p>
2.6	Has each Member declared his or her business interests?	Yes - Constitutional requirement for all Members.	Yes – as required by the Constitution.
2.7	Are Members sufficiently independent of the other key committees of the Council?	Yes – within the limits of the Constitution	Yes – Members did comment that with a reduction of numbers after May 2013 this may need to be revisited.
3 Meetings			
3.1	Does the Audit Committee meet regularly?	Yes	Yes
3.2	Do the terms of reference set out the frequency of meetings?	Yes – although in practice the Committee met more frequently in 2011-12.	Yes
3.3	Does the Audit Committee calendar meet the Authority's business needs, governance needs and the financial calendar?	Yes – AC has produced a timetable of agenda items – But needs updating in 2012-13.	Yes – But some discussion on timing of the Committee to review SofA which has in past limited the amount of time between issuing of papers and the meeting. It was agreed that this issue would be taken into account in the on-going review of the Committee's calendar.
3.4	Are Members attending meetings on a regular basis and, if not, is appropriate action taken?	Yes – no issues identified with Audit Committee Members in 2012-13.	Yes – However, it was not clear to Members where this information could be found. Who records; monitors and reports when and where? The Chair would like to include Member attendance in his annual report to the Committee.
3.5	Are meetings free and open without political influences being displayed?	Yes - no issues identified with Audit Committee Members in 2011-12.	Yes – There was some discussion on the wording here and the fact that the Council is by its nature a political institution. Wording to be reviewed for next self-assessment.
3.6	Does the Authority's S151 Officer or deputy attend all meetings?	Yes	Yes
3.7	Does the Audit Committee have the benefit of attendance of appropriate officers at its meetings?	Yes	Yes
4 Internal Control			
4.1	Does the Audit Committee consider the findings of the annual review of the effectiveness of the System of Internal Control (as required by the Accounts and Audit Regulations) including the review of the effectiveness of the system of Internal Audit?	Yes - as part of the Annual Governance Statement	Yes - as part of the Annual Governance Statement
4.2	Does the Audit Committee have responsibility for review and approval of the SIC and does it consider it separately from the accounts?	Yes	Yes - as part of the Annual Governance Statement
4.3	Does the Audit Committee consider how meaningful the SIC is?	Yes - as part of the Annual Governance Statement.	Yes - as part of the Annual Governance Statement

4 Internal Control			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
4.4	Does the Audit Committee satisfy itself that the System of Internal Control has operated effectively throughout the reporting period?	Yes - IA Progress Reports give this - recent recommendation to provide score between 1-10 to reinforce this.	Yes - again this year IA Progress reports built up a picture of the IC system and all Red Assurance reports and significant control weaknesses identified were reported to the AC.
4.5	Has the Audit Committee considered how it integrates with other Committees that may have responsibility for risk management?	Yes - to be included in joint workshop / training on Risk Management framework with Corporate Scrutiny Committee.	Yes - There was discussion on the similarity of some roles and responsibilities of the Corporate Scrutiny and Audit Committees. The Chairs of both Committees had met to discuss the issue but it was felt that more clarification of role such as that relating to Risk Management was needed.
4.6	Has the Audit Committee (with delegated responsibility) or the full Council adopted "Managing the Risk of Fraud - Actions to Counter Fraud and Corruption?"	No - but following April's workshop a paper will be prepared for adoption at the Committee in 2012-13.	No - Will be in 2013-14.
4.7	Does the Audit Committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?	No - But checklist to be completed and action plan produced in 2012-13.	No - Will be in 2013-14 following adoption.
4.8	Is the Audit Committee made aware of the role of Risk Management in the preparation of the Internal Audit Plan?	Yes - part of the introduction to the Plan.	Yes - Corporate Risk Register increasingly linked to and cross referenced to IA Operational Plan.
4.9	Does the Audit Committee review the Authority's strategic risk register at least annually?	No - But will do in 2012-13 - draft Corporate Risk Register has now been produced.	Yes - draft Corporate Risk Register (CRR) has been presented to the AC in 2012-13 and revised CRR is on the agenda for the AC meeting to be held on 05-02-13.
4.10	Does the Audit Committee monitor how the Authority assesses its risk?	No - But will do so in 2012-13.	Yes - Risk Management Strategy and Guidance was presented for Committee approval in 2012-13.
4.11	Do the Audit Committee's Terms of Reference include oversight of the Risk Management process?	Yes	Yes - TOR have been updated with Local Government Measure guidance on Audit Committee role.
5 Financial Reporting and Regulatory Matters			
5.1	Is the Audit Committee's role in the consideration and/or approval of the annual accounts clearly defined?	Yes - in terms of reference.	Yes
5.2	Does the Audit Committee consider specifically:- <ul style="list-style-type: none"> • The suitability of accounting policies and treatments; • Major judgements made; • Large write-offs; • Changes in accounting treatment; • The reasonableness of accounting estimates; The narrative aspects of reporting?	Yes - AC training is ongoing - External Audit reports and Finance briefings assist - However, timing a consideration - e.g. after the event?	Yes - Members requested to see policy on write offs.
5.3	Is an Audit Committee meeting scheduled to receive the External Auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Yes	Yes
5.4	Does the Audit Committee review management's letter of representation?	Yes	Yes

5 Financial Reporting and Regulatory Matters			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
5.5	Does the Audit Committee annually review the accounting policies of the Authority?	Yes	Yes
5.6	Does the Audit Committee gain an understanding of management's procedures for preparing the Authority's annual accounts?	Yes – via Finance reporting.	Yes
5.7	Does the Audit Committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Yes – Officer reports to Committee - But could improve with issuing of regular circulars and topical training.	Yes
6 Internal Audit			
6.1	Does the Audit Committee approve, annually and in detail, the Internal Audit strategic and annual plans including consideration of whether the scope of Internal Audit work addresses the Authority's significant risks?	Yes –Now the IA Operational Plan is cross referenced where appropriate to the Corporate Risks in the Corporate Risk Register.	Yes - concern was expressed over the number of investigations impacting on the Plan.
6.2	Does Internal Audit have an appropriate reporting line to the Audit Committee.	Yes	Yes
6.3	Does the Audit Committee receive periodic reports from the Internal Audit Service including an annual report from the Head of Internal Audit?	Yes - IA Progress reports to each meeting and an Annual Report at the first meeting following end of March.	Yes
6.4	Are follow-up audits by Internal Audit monitored by the Audit Committee and does the Committee consider the adequacy of implementation of recommendations?	Yes - at each meeting as part of the IA Progress Reporting.	Yes
6.5	Does the Audit Committee hold periodic private discussions with the Head of Internal Audit?	Yes - But a conscious decision that this is not required; however was established that an opportunity is there when required by either party.	Yes - as per last year – do not feel the need to do so but can do so if considered necessary.
6.6	Is there appropriate co-operation between the Internal and External Auditors?	Yes - but room for improvement on planning.	Yes - but again room for improvement on planning.
6.7	Does the Audit Committee review the adequacy of Internal Audit staffing and other resources?	Yes - part of IA Operational Plan each year.	Yes
6.8	Has the Audit Committee evaluated whether its Internal Audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom?	Yes - external review by External Audit.	Yes
6.9	Are Internal Audit performance measures monitored by the Audit Committee?	Yes - as part of the IA Progress Report linked to Business Plan.	Yes
6.10	Has the Audit Committee considered the information it wishes to receive from Internal Audit?	Yes - on-going – Request for an example full IA report to be presented so that Members can see methodology in practice and identify any additional reporting requirements.	Yes - a new format has been developed for 2012-13 with additional information on results of each review.
7 External Audit			
7.1	Do the External Auditors present and discuss their audit plans and strategy with the Audit Committee (recognising the statutory duties of External Audit)?	Yes	Yes – but could strengthen in this area.
7.2	Does the Audit Committee hold periodic private discussions with the External Auditor?	Yes – But a conscious decision that this is not required; however, was established that an opportunity is there when required by either party.	Yes – as per last year.
7.3	Does the Audit Committee review the External Auditor's annual report to those charged with governance?	Yes	Yes

7 External Audit			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
7.4	Does the Audit Committee ensure that officers are monitoring action taken to implement External Audit recommendations?	No – But IA has produced a report on the Follow Up of Non IA Recommendations including the need for a central register of all recommendations and reporting to relevant Committees.	Yes
7.5	Are reports on the work of External Audit and other inspection agencies presented to the Committee, including the Audit Commission's Annual Audit and Inspection Letter?	Yes - External Audit Yes - Others may go elsewhere.	Yes
7.6	Does the Audit Committee assess the performance of External Audit?	No – need to look at adopting relevant KPIs to be reported against as part of EA progress reports to Committee.	No - Members considered this a priority area for improvement and links with 7.7 below.
7.7	Does the Audit Committee consider and approve the External Audit fee?	No - EA fee set for Statement of Accounts – additional work relating to intervention should be considered and justified.	No - Members would like more involvement in the EA planning process and in approving fees as part of this process. This would best be achieved by joint meetings of Audit and Scrutiny with regulators. Members considered this a priority area for improvement.
ADMINISTRATION			
8 Agenda Management			
8.1	Does the Audit Committee have a designated secretary from Committee/Member Services?	Yes	Yes
8.2	Are agenda papers circulated in advance of meetings to allow adequate preparation by Audit Committee Members.	No - There were issues relating to late papers in 2011-12 - need to be addressed.	Yes
8.3	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Yes - per calendar.	Yes
8.4	Are inputs for Any Other Business formally requested in advance from Committee Members, relevant officers, Internal and External Audit?	N/A - AOB not current practice to allow at formal Committee meetings.	N/A – as last year
9 Papers			
9.1	Do reports to the Audit Committee communicate relevant information at the right frequency, time, and in a format that is effective?	Yes – but some Members queried the amount of time they are given to consider long and / or detailed papers - including Statement of Accounts.	Yes
9.2	Does the Audit Committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	Yes – Corporate Committee reporting format.	Yes
10 Actions arising			
10.1	Are minutes prepared and circulated promptly to the appropriate people?	Yes – But timing is an issue - minutes to the Chair could be more prompt. Corporate policy is that Chairs do not receive draft minutes but get final versions at same time as everyone else – Need to see if Corporate policy can be reviewed if necessary. Chairs to receive draft minutes have been approved.	Yes – But Members would like to see the draft minutes and be consulted on them prior to the next meeting of the Committee.

10 Actions arising			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
10.2	Is a report on matters arising made and minuted at the Audit Committee's next meeting?	Yes - under minutes on next agenda - But no formal follow up of actions in previous minutes is routinely provided.	Yes
10.3	Do action points indicate who is to perform what and by when?	No - Action points do not include who or by when for follow up at next meeting.	Yes - Minutes do include who is to do what - need to ensure that this is more consistent and includes by when.

END OF CHECKLIST

AUDIT COMMITTEE EFFECTIVENESS SELF-ASSESSMENT CHECKLIST
IMPROVEMENT ACTION PLAN - 16 JANUARY 2013

Ref	Issue	Improvement Action Needed	Action By & Date
1.1 & 4.5	It is not clear in some areas what the roles of the Audit and Scrutiny Committees are. This is especially true in relation to role and responsibility for Risk Management.	Need to clarify the roles of Audit and Scrutiny Committees especially in relation to Risk Management. Discuss with Legal and Administration.	Head of Service - Audit By Audit Committee - May 2013
1.5	How in practice can the Audit Committee access other Committees and the Full Council as necessary?	Need to ascertain what procedures are available to facilitate this. Discuss with Legal and Administration.	Head of Service - Audit By Audit Committee - May 2013
2.3	Further training on Statement of Accounts is requested by Members prior to review this year.	Need to ensure that a training session on the Statement of Accounts takes place again this year prior to the review of the 2012-13 Accounts. Need to liaise with Members on content of such training to ensure that it covers their needs in this area.	Head of Service - Finance Prior to SofA review 2013
2.4	Induction arrangements for new Members of the Audit Committee need to be improved. This is considered especially important for new Members following the elections in May 2013	Review of current arrangements is required with the provision of an induction session and appropriate material for Members.	Head of Service - Audit and Head of Service - Finance For May 2013
2.5	Members felt that, although there is a Corporate process of TNA based on Peer Review and undertaken by HR more could be done to identify the training needs of Committee Members themselves.	A specific TNA for AC Members was needed with links to induction and peer assessments. A training needs analysis/skills audit questionnaire be introduced to be completed annually by Members.	Head of Service - Audit For May 2013
3.4	It was not clear who was responsible for recording; monitoring and reporting on Member attendance at Committee or when reporting was undertaken or to whom. The Chair expressed a desire to include Member attendance in his annual report to Committee.	Need to ascertain who has responsibility for recording and monitoring attendance at Audit Committee and to provide the Chair with attendance figures for 2012-13.	Head of Service - Audit By Audit Committee - February 2013.
3.5	There was some discussion on the wording here and the fact that the Council is by its nature a political institution.	Wording to be reviewed for next self-assessment.	Head of Service - Audit By next self-assessment.
4.6 & 4.7	The Audit Committee has not arranged for the adoption of "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" or an equivalent.	Need to arrange for adoption of Counter Fraud guidance and best practice.	Head of Service - Audit For May 2013
5.2	In relation to accounting policy and financial procedures Members asked to see the policy on large write offs.	Members to be provided with a copy of Write Off policy.	Head of Service - Finance For May 2013
6.6	Planning arrangements between Internal and External Audit.	Need to enhance arrangements for consultation and liaison on annual plans.	Head of Service - Audit For May 2013
7.1	External Audit presentation and discussion of their audit plans and strategy with the Audit Committee.	Members asked for strengthening in this area.	Head of Service - Finance For May 2013
7.6 & 7.7	Audit Committee consultation on EA planning, performance and fee.	Members would like more involvement in the EA planning process and in approving fees as part of this process. This would best be achieved by joint meetings of Audit and Scrutiny with regulators. Members considered this a priority area for improvement.	Head of Service – Finance For May 2013

END OF ACTION PLAN