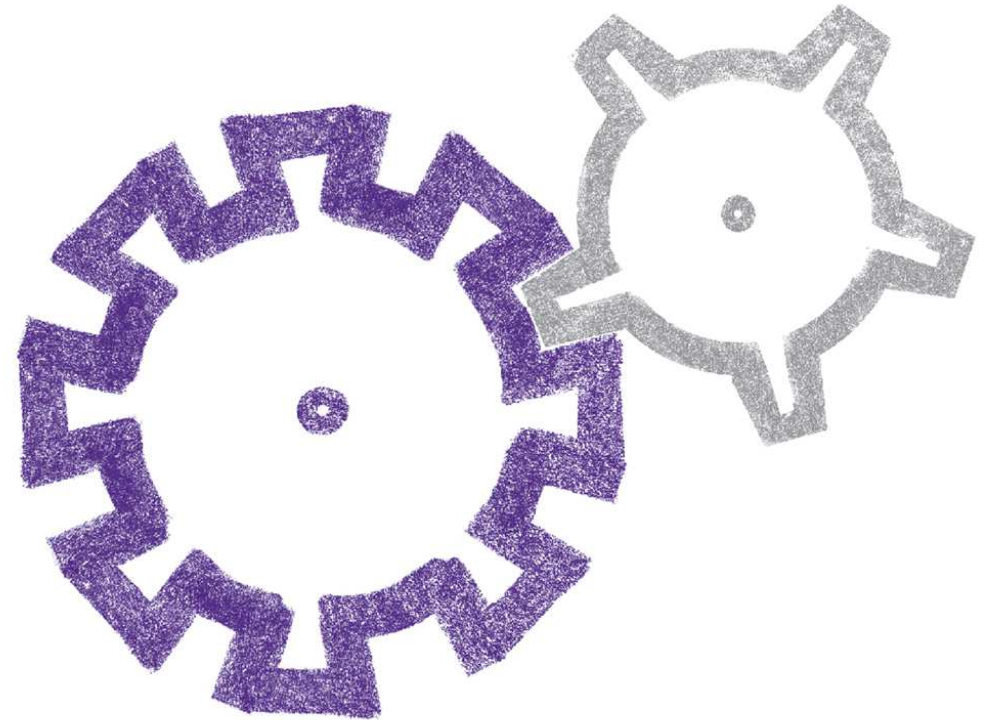


A Guide for Audit and Governance Committee Members

25 June 2015

Page 5



Contents

1 Roles and responsibilities of the Audit and Governance Committee	2
2 Roles of assurance providers	5
3 Characteristics of assurance gathering	6
4 Importance of the AGS	9
5 Features of an effective Audit and Governance Committee	10
6 Conclusions – top tips for effectiveness	12
Supporting materials	14

Page 6

Roles and responsibilities of the Audit and Governance Committee

- Key role overseeing/assessing effectiveness of the authority's risk management arrangements, control environment and associated anti-fraud and anti-corruption arrangements. Advise the authority on the adequacy and effectiveness of these
- 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 actions required to improve it
- Approve (but not direct) Internal Audit's strategy, plan and monitor performance

The public sector audit committee - role

Role to provide independent assurance to the Cabinet (or equivalent)

over

Financial reporting (i.e. the annual accounts)

over

Risk management and internal control (including scrutiny of performance)



Discharged by:

- Approving accounting policies
- Approving annual accounts
- Considering External Audit report
- Considering wider control issues
- Monitoring action plan

Assurance and commissioning role re Internal and External Audit



Discharged by:

- Recommending AGS adoption
- Receiving risk management, Internal Audit, External Audit, regulatory and other reports throughout the year to gain reasonable assurance to recommend the AGS

Common misconceptions

- *Seek assurance that action is being taken* vs monitoring financial position
- *Review financial statements* vs spot check accounts
- *Be aware of Value for Money strategy* vs check that Value for Money is achieved
- *Call in specialist knowledge* vs attempt to be an expert in everything

Roles of Assurance Providers

Internal Audit

provides an independent and objective opinion to the authority on governance, risk management and internal control by evaluating its effectiveness in achieving its objectives

External Audit

undertakes an audit and reports an opinion on whether the authority's accounts present a true and fair view of its financial position and reaches a Value for Money conclusion on whether it has proper arrangements in place to secure financial resilience and economy, efficiency and effectiveness

Characteristics of assurance gathering

For the two main areas of Audit and Governance Committee responsibility

Financial reporting

Simple to scope boundaries of responsibility

Objective

Committee work loaded towards year end

Few reports and sources of evidence to consider

Risk management / internal control

Tougher to define boundaries of responsibility

Subjective

Year round gathering of assurance

Lots of reports and sources of evidence to potentially consider

Obtaining assurance over financial reporting

Audit and Governance Committee responsibilities clearer, however:

progress updates on issues and resolution

early review of accounting policies

training on interpreting the accounts

financial expertise

challenging finance team resources

follow up of ISA260 recommendations

Page 12



Obtaining assurance over risk management and internal control

More complicated...

audit committees have limited time

"reasonable assurance"



Page 13

most efficient means of obtaining the required assurances

start with AGS and work back to design workplan

clarity over flows of assurance into the committee

Importance of the AGS

In Local Government, AGS are largely:

- still in the "compliance phase"
- not at the heart of governance processes
- weak in clearly articulating annual assurances
- unclear in reporting "significant weaknesses."

Page 14



To add real value we believe the AGS should:

- have greater status as the key document that records the planned and obtained assurances over achievement of the vision and strategic objectives
- be owned from the top, used to plan and monitor internal and external assurance gathering throughout the year
- be fundamentally reviewed each year so that it clearly includes what is significant and excludes what is not
- have only significant weaknesses recorded with SMART action planning
- provide a robust, transparent and honest assessment of the governance framework for the year.

Features of an effective Audit and Governance Committee

- Knowing who to call upon to provide specialist advice where required
- Ensuring that members are aware of key items that inform their work, e.g. governance and regulatory structures, the authority's VFM strategy and how they might affect the authority
- Members are independent of other key committees of the authority
- Meetings are free, open and not hindered by political influence

Audit Committee effectiveness - some examples

'cracking the whip' - implementing recommendations

flexing the agenda to reflect new risks

strategic risk driving the agenda in social housing

advice from officers keeping meetings on track

briefings, training and walking the floor



Conclusion - top tips for effectiveness

Establishing or reviewing the committee:

- appropriate, tailored, up to date terms of reference
- membership - good chair supported by audit and financial expertise (including lay members and planning for future role)
- management support - 'board secretary' role.

Page 17



Planning for the year:

- focus on end point of assurance for AGS
- members to own the agenda and ensure that this reflects key risks facing the organisation
- workplan and meeting schedule to flow from this, as well as required training and briefings.

Conclusion - top tips for effectiveness

During the year:

- pre-meetings (including audit) to organise and prioritise agenda
- obsessive focus on assurance gathering for the AGS and speaking up / call officers in if not getting what is needed
- hard challenge on anything that threatens to soak up committee time that is not key to assurance gathering (interesting distractions / too much detail)
- awareness of tendency to drift into executive/management roles (policing role but assurance that it is being covered in the appropriate place)
- willingness to flex workplan / additional meeting / subgroup to deal with emerging important issues and risks.



Year end:

- challenge the effectiveness of the AGS
- ensure explanations on the accounts are clear and satisfactory
- prepare a report on the effectiveness of the committee during the year
- feed improvements into next year's plan.

Supporting materials

Questions

Review of the External Audit Plan

- Which aspects of the authority's operations do the auditors consider to be of high risk? Why? And how will they be covering them?
- What is the overall audit approach? How much does it rely on, and test compliance with, internal controls and how much does it use direct tests of details of transactions?
- How will the auditors satisfy themselves about the accuracy and completeness of computer processed data?
- How are the external auditors co-ordinating their work with the authority's internal auditors?
- To what extent will the external auditors consider the process of risk management in place at the authority?
- What regulatory changes will affect the audit of the financial statements in the current year?
- Are there any circumstances that will generate extra fees?
- Does the audit team have the requisite experience and expertise? Have there been any significant changes in the team since last year?

Questions

Review of the Financial Statements

- Which significant items in the accounts are based on accounting estimates? Which accounting policies followed by the authority required an element of judgment in their application? How does the approach taken this year to these items and policies compare with the previous year?
- Have there been any developments in accounting standards or generally accepted accounting practice of relevance to the authority since the audit committee last reviewed the authority's accounting policies and practices?
- Do the financial statements satisfy all statutory and other regulatory disclosure requirements to which the authority is subject?

Questions

Risk Identification & Management

- What are the areas of high risk? Are they verified in the authority's assurance framework?
- Have our strategic objectives changed?
- Are our key risks still relevant to the current strategic objectives?
- Is the authority facing any new risks?
- Have any risks been mitigated to the extent that they are no longer key risks?
- Have changes in the external environment (for example, political) meant that the authority is facing new risks or that existing risks are no longer relevant?
- Are there changed internal factors that might affect risks? For example, has the authority been inspected during the year or is it about to be inspected?
- Is the ranking of risks in the risk register still appropriate?

Questions

Review of Internal Control

- Have any major changes been made to the internal control systems in the past year? Were they made in order to improve existing controls or were they new controls established due to changes in operating systems?
- Are appropriate procedures in place to ensure adequate user involvement in the development of new systems and major systems changes, including the design of appropriate controls?
- Are audit committee members fully aware of new initiatives or major system changes or developments?
- What were the most significant internal control weaknesses found by the internal and external auditors during the period?
- What is the auditor's view of the balance between the risk of error in the present internal control systems and the cost of additional controls?
- Have there been any cases of fraud or illegal, questionable or unethical activities?

This page is intentionally left blank