Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**28th July 2020**
Subject:	**Audit Committee – Future Ways of Working**

Wards Affected:	**All**

1. PURPOSE OF REPORT

1.1 This report outlines proposals for further enhancing the effectiveness of the Audit Committee and to seek assurance from managers on compliance with governance and internal control arrangements, and the management of strategic and key operational risks.

2. EXECUTIVE SUMMARY

2.1 The Audit Committee is a key component of the Council's governance framework. Its purpose is to provide those charged with governance with an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

2.2 Members have expressed a wish to enhance the effectiveness of the Audit Committee.

2.3 An independent assessment against CIPFA's recommended best practice framework has been completed.

3. RECOMMENDATIONS

Audit Committee Members agree to:

3.1 Produce an annual report to Council Business Management Committee or Full Council as appropriate on assurance activities undertaken with the assistance of Birmingham Audit.

3.2 Develop proposals for an independent advisor(s) to supplement existing skills and abilities.

3.3 Undertake a communications programme on the role of the Audit Committee with the assistance of Birmingham Audit.

3.4 Seek assurance from managers and Cabinet Members on the management of risks, effectiveness of governance arrangements, and compliance with internal controls.

3.5 Revisit the Committee's Forward Plan and introduce greater capacity by increasing the number of meetings from 7 to 9 per year.

3.6 Co-ordinate activity by mapping sources of assurance, based on the 3 lines of defence model, with the assistance of Birmingham Audit.

3.7 Develop and participate in a training programme to further enhance skills and knowledge.

3.8 Review the format of officer reports with the assistance of Birmingham Audit.

4. LEGAL AND RESOURCE IMPLICATIONS

4.1 The purpose and role of the Audit Committee's is set out within the Council's Constitution - Part B Roles, Functions and Rules of Procedure.

4.2 'Audit Committees - Practical Guidance for Local Authorities and Police 2018' – CIPFA represents best practice for audit committees in local authorities throughout the UK.

5. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

5.1 Risk Management and Equality Analysis are important parts of the internal control framework. The Audit Committee require assurance on their effectiveness.

6. COMPLIANCE ISSUES

6.1 The Council policies, plans, and procedures set out the rules that govern the organisation. The Audit Committee require assurance that these are up to date and being applied on a consistent basis.

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Audit Committee – Future Ways of Working

1.   Introduction

1.1   The Audit committee is a key component of the Council's governance framework. Its purpose is to provide those charged with governance with an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

2.   Audit Committee Best Practice / Guidance

2.1   The Chartered Institute of Public Finance (CIPFA) publication - 'Audit Committees - Practical Guidance for Local Authorities and Police 2018' - represents best practice for audit committees in local authorities throughout the UK. The publication sets out CIPFA's view of the role and functions of an audit committee, which includes assurance over:

i)	Good Governance and the Annual Governance Statement.
ii)	Internal Audit.
iii)	Risk Management.
iv)	Assurance Frameworks and Assurance Planning.
v)	Value for Money and Best Value.
vi)	Countering Fraud and Corruption.
vii)	External Audit.
viii)	Financial Reporting.
ix)	Partnership Governance and Collaboration Agreements.
x)	Governance and Ethical Values.
xi)	Treasury Management.

The guidance also includes an assessment checklist.

3.   Audit Committee Functions

3.1   The functions of the Audit Committee are set out within the Council's Constitution (September 2019, Amended April 2020) Part B, see Appendix A, and the Council's Corporate Governance Code and Framework (Constitution - Part C Codes and Protocols), see Appendix B.

3.2   These functions are currently fulfilled through a series of reports and presentations provided during the year by the Chief Financial Officer, Assistant Director Audit and Risk Management, City Solicitor, and the Council's External Auditor.

4.   Audit Committee Effectiveness

4.1   Audit Committee Members have expressed a wish to enhance their effectiveness by drawing upon wider sources of assurance; specifically, that of management and where appropriate, cabinet members and producing an annual report on the work it has undertaken.

4.2 In order to assist and drive forward an improvement programme the CIPFA best practice assessment checklist has been used to evaluate the current effectiveness of the Audit Committee in fulfilling its functions. This assessment was undertaken independently by PWC LLP, a full copy of the report is included in Appendix C.

4.3 The evaluation identified many areas of good practice, including:

- A clear term of reference which sets out the Audit Committee's purpose.
- Access to all audit reports.
- The ability to request relevant officers attend meetings to explain issues.
- Reviewing the Annual Governance Statement on an annual basis and monitoring progress on key areas of concern.
- Its independence and good relationships with key officers.
- Regular reporting from internal and external audit.
- An action tracker.

4.4 However, it did identify a number of key recommendations to further develop the effectiveness of the Committee. These were:

- Production of an annual report.
- Appointment of independent advisor.
- A communications programme on the role of the Committee.
- Seeking a wider source of assurance.
- Revisiting the Committees Forward Plan.
- Introducing greater capacity by increasing the number of meetings.
- Mapping out sources of assurance
- Identification of any skill gaps.
- Developing officer reports.

5. Proposed Management Assurance Framework

5.1 Each Director together with the appropriate Cabinet Member attend Audit Committee on a rotational basis to provide on update and assurance on:

- **Governance and Internal Controls**

  The systems and process outlined within their Directorate AGS self-assessment remain in place and continue to operate effectively.

  Any areas of concern flagged within their AGS self-assessment are being appropriately addressed within a timely basis.

  Any relevant area selected by the Audit Committee from the Council's Corporate Governance Code and Framework.

That they have processes and procedures in place to ensure that their staff follow laid down policies and procedures.

- **Risk Management**

That an appropriate system has been established to identify significant risks that could prevent the delivery of a business objective or could lead to the break-down of a key control.

Action plans have been established to manage or mitigate the significant risks that have been identified.
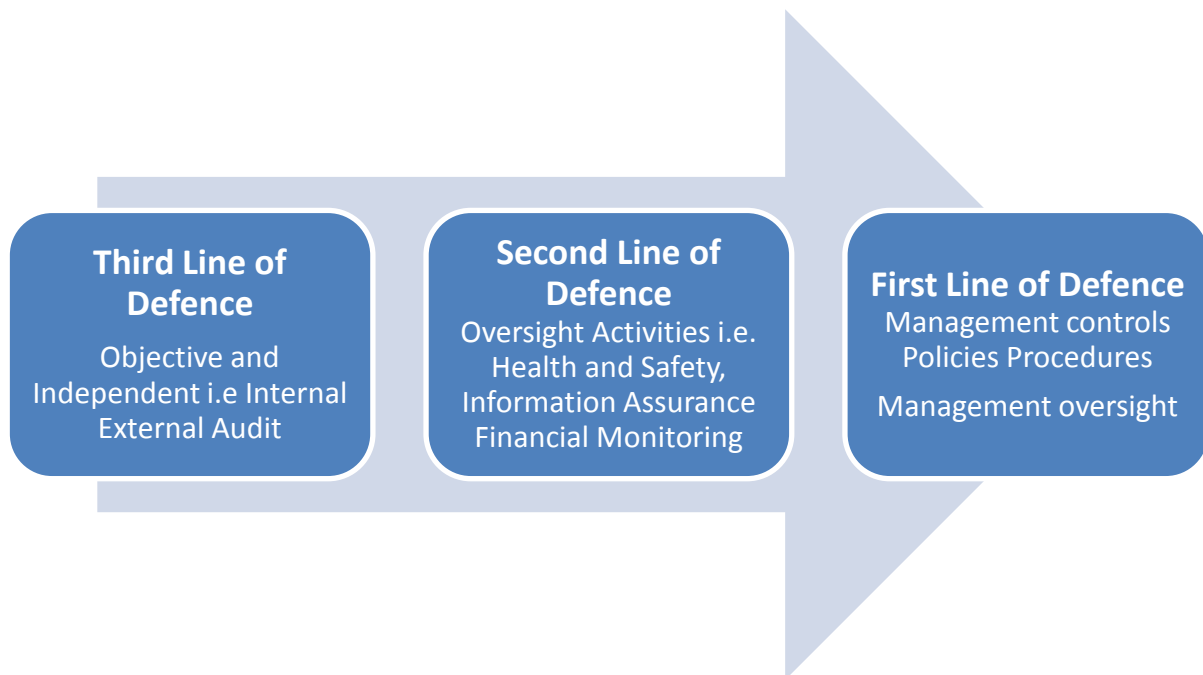
Progress in the management of any Strategic or key operational risks.

- **External Audit**

Recommendations and VFM concerns raised by the Council's External Auditor are being addressed on a timely basis.

- **Internal Audit**

Progress in addressing any significant Internal audit findings.

5.2 With the assistance of Birmingham Audit an assurance map be developed for the Audit Committee. Assurance maps are a useful tool that provide a structured way to identify the main sources and types of assurance activities. They help to ensure a coordinated approach is adopted, and any assurance gaps are identified. Assurance providers are assigned based on their line of defence e.g.

Third Line of Defence
Objective and Independent i.e Internal External Audit

Second Line of Defence
Oversight Activities i.e. Health and Safety, Information Assurance Financial Monitoring

First Line of Defence
Management controls Policies Procedures
Management oversight

5.3   Once an assurance map has been developed it will be used to target the work of the Audit Committee. Future reports to the Committee should identify the type and level of assurance being provided so that their contribution can be mapped.

5.4   Any significant issues or concerns identified by the Audit Committee together with supporting recommendations are to be reported to the Council Business Management Committee or Full Council as appropriate.

5.5   On an annual basis the Committee will publish an annual report to Council Business Management Committee or Full Council as appropriate.

B14. AUDIT COMMITTEE

14.1 Purpose

i. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance.

14.2 Functions

a) To review the City Council's Annual Accounts and Annual Governance Statement (AGS). This will include advising on significant changes throughout the year to financial regulations and policies.

b) To monitor progress in addressing control or governance issues identified in the AGS.

c) To review and provide the executive with assurance on the embedding and maintenance of an effective system of corporate governance including the risk management framework and the associated control environment.

d) To review the adequacy of treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices.

e) Responsibilities as set out in the terms of reference in relation to external audit including reviewing the planned programme of work, noting fees and terms of engagement of the external auditor, considering and advising the executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.

f) To review and make recommendations to the executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.

g) To consider and make recommendations to the executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

h) To consider reports from the Ombudsman and monitor management response in relation to these.

i) To consider, approve or make recommendations in respect of any other matters at the request of the Council.

C1. CORPORATE GOVERNANCE CODE AND FRAMEWORK

1.1 Introduction

i. Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a council relates to the communities that it serves.

ii. Our Birmingham City Council Plan articulates ambitions framed around our Birmingham City Council Plan 2018 -2022 as a city of growth where every child, citizen and place matters.

iii. The purpose of our corporate governance arrangements is to devise and deliver services to the citizens of Birmingham in a way that demonstrates accountability, transparency, effectiveness and value for money, integrity, and inclusivity and which reflects corporate values.

1.2 Corporate Governance Code

i. Our Corporate Governance Code and Framework is based upon seven Principles.

ii. We will:

   a) Behave lawfully, with integrity and in the public interest and demonstrate this through our conduct and behaviour.
   b) Be open and engage with local communities, service users and our other stakeholders.
   c) Focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money.
   d) Ensure we have clear responsibilities and arrangements for transparent and effective accountability.
   e) Take informed and transparent decisions.
   f) Ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management controls.
   g) Develop our capacity and capability to be effective.

iii. It is the role of our Audit Committee to oversee and receive assurances relating to our governance arrangements and also to provide challenge on how our arrangements can be continually improved.

1.3 Principles

We will behave lawfully, with integrity and in the public interest, and will demonstrate this through our conduct and behaviour

And commit to	*Supported and evidenced by our*
Embed values and codes of conduct for both employees and councillors.	Values and behaviours
	Members' Code of Conduct
Ensure that those who provide services on our behalf act in accordance with these principles.	Officer Code of Conduct
	Partnership agreements
Deal with breaches of legal and regulatory requirements and ensure fraud, corruption and allegations of misuse of public funds are dealt with effectively.	Procurement Terms and Conditions
	Arrangements for the registration and declaration of interests (including gifts and hospitality)
	Anti-Fraud and Corruption Policy
	Complaints and Compliments procedures

We will be open and engage with local communities, service users and our other Stakeholders

And commit to	*Supported and evidenced by our*
Ensuring that service users, local communities and other stakeholders have access to the council and are involved and consulted about major changes that may affect them.	Consultation
	Approach to restorative practice
	Ward Forums
Welcome peer challenges, reviews and inspections from regulatory bodies and implement recommendations which arise from them.	Parish and Town Council arrangements
	Birmingham Citizens Panel (when active)
	Use of Overview and Scrutiny Inquiries
	Deputations to full Council and ward forums
	Consideration of and response to Petitions

We will focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money

And commit to	*Supported and evidenced by our*
Ensure that services put the needs of the public first, are non-discriminatory and are appropriate to different needs in the community. Make best use of resources and ensure that the People of Birmingham receive excellent value for money. Consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions.	City Council Plan for Birmingham Equality and Diversity Policy Safeguarding arrangements Safer Birmingham Strategy Youth Justice Plan Children and Young Peoples Plan Annual Performance Report Financial Strategy and Medium Term Financial Plan State of the City Events Performance Management Framework Annual Internal Audit Report External Audit Value for Money opinion

We will ensure we have clear responsibilities and arrangements for transparent and effective accountability

And commit to	*Supported and evidenced by our*
Document who is responsible for our functions and will ensure reports on our performance, delivery of value for money and stewardship of resources are routinely reported. Review on a regular basis the vision for the city and its implications for the authority's governance arrangements. Have in place effective arrangements to identify and deal with failure in service delivery.	Constitution Executive Portfolios Monitoring of Revenue and Capital expenditure Delegation and sub delegation arrangements Committee Terms of Reference Protocol for the roles of Members and officers in

Ensure that relationships and accountabilities between the authority, its partners and the public are clear.	Decision Making
	Annual Internal Audit Report
	Customer service standards and dispute resolution arrangements
	Annual Accounts
	Access to Information Procedure Rules
	Executive and Decision Making Procedure Rules
	Annual Governance Statement
	Annual Scrutiny Report
	Annual Standards Report
	Partnership arrangements
	Information Governance arrangements
	Health Safety and Wellbeing
	Annual Pay Policy Statement

We will take informed and transparent decisions

And commit to	*Supported and evidenced by our*
Ensure that all decisions are taken which are proportionate, respect human rights and natural justice, are open and transparent with clear aims and desired outcomes and promote equality of opportunity.	Executive/Cabinet arrangements
	Committee Terms of Reference
	Access to Information Procedures
Consider and balance the economic, social and environmental impacts of policies and plans.	Delegation and sub delegation arrangements
	Procedures for decision making
Ensure that:	
those making decisions are provided with information that is relevant, timely and gives clear explanations of technical issues and their implications;	Provision of effective, timely, responsive and highly regarded legal, financial and professional services
	Equality and Diversity Policy
appropriate legal, financial and other professional advice is considered as part of the decision-making process; and	Use of data to support decision making and effectively target resources

decision-makers can be held to account for the decisions they take through effective overview and scrutiny arrangements.	

We will ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management arrangements.

And commit to	*Supported and evidenced by our*
Embed a risk management framework to achieve our priorities and protect the Council's reputation and assets. Collect, use and store information and data appropriately. Maintain a prudential financial framework which balances our commitments with available resources, monitors income and expenditure and ensures corrective action when necessary.	Overview and Scrutiny Committee arrangements Vision for Overview and Scrutiny Medium Term Financial Plan Capital Programme and Treasury Management Strategy Financial Regulations and Contract Procedure Rules Performance and risk management arrangements Compliance with the Code of Practice on Data Transparency and the General Data Protection Regulation Business Continuity arrangements A 'Public Sector Internal Audit Standard' compliant Internal Audit function

We will develop our capacity and capability to be effective

And commit to	*Supported and evidenced by our*
Improving the use of our people resource by developing and maintaining an effective workforce plan. Continually review our performance, including how the organisation is led, how we work, and how we make the most efficient use of our resources assets (including data) to ensure our continuing effectiveness.	Code of practice for Member-Officer relations Our values and behaviours Appraisal arrangements Staff surveys Training and development programmes for

Ensuring that all councillors and employees have the skills, knowledge and experience they need to perform their roles effectively.	Councillors Training and development programmes for staff Participation in peer reviews Recognition of colleagues through our awards for excellence Workforce development plan Graduate and apprenticeship programmes

Appendix C
Birmingham City Council

Audit Committee effectiveness review

Contents

1

Executive summary

1.0 Executive summary

Background

Birmingham City Council's (BCC) Audit Committee (AC) is the Council's key forum for considering the effectiveness of governance, risk and controls as assessed by internal audit and external audit. Internal audit is typically considered to be the 'last line of defence' (see appendix 2 for a description of the lines of defence model) but has a less active role in considering how assurance is gained over the risks and controls within Directorates (typically considered to be the first and second lines of defence).

Summary of work performed

Our review of the effectiveness of the Audit Committee (AC) was based on:

- A desktop review of key documents from the AC;
- Interviews with key stakeholders;
- Observation of AC meetings to get a good feel for strengths and areas for development;
- Review of the Audit Committee's self-assessment against the most relevant best practice guidance for the sector; primarily CIPFA's 'Audit Committees – Practical Guidance for Local Authorities and Police – 2018';
- Consideration of principles and certain transferrable elements of HM Treasury's Audit and Risk Assurance Committee handbook – March 2016' and other relevant good practice outside the sectors; and
- Identification of areas to focus on considering future training needs.

Summary of findings

CIPFA recommends that the AC should be able 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 governance processes.

There are a number of areas identified during our review which hinder the AC from discharging these duties effectively:

- The AC does not report to full Council. Given audit committees are generally considered to provide to 'those charged with governance' independent assurance on the adequacy of the risk management framework, internal controls, financial reporting and annual governance this potentially reduces its effectiveness.

- Interviewees felt that there was very little awareness of the existence of, or at least the remit of, the AC beyond those on the AC and that the level of interaction between the AC and Internal Audit and Cabinet members was unusually low. There were a number of directors who had never attended an AC meeting which is atypical for the sector. The Chair is keen to explore rotational presentations to the AC from every directorate each year on the management of their key risks.

- Assurance activities are not sufficiently joined up for the AC to be able to assess the strengths and weaknesses of the control environment and the AC receive no reports on the adequacy of first line and second line activities.

- Most interviewees felt that discussions are typically about backward-looking, historical issues rather than forward looking discussions on the management of current or future risks.

- The role of the Chair is seen as important within the Council and was described as being seen as a good stepping stone to other roles. However, this was deemed to have led to a large turnover in post-holders over the last few years which, given the time taken to develop into the role, has hindered the effectiveness of the AC.

- AC members sometimes found it difficult to knowledgeably challenge Officers or contribute to any debate. This is because:

  - there is considered to be a sub-optimal level of understanding of key areas within the Committee's remit (e.g. accounting, risk, governance or assurance) within some of the current members; and

  - the agenda and discussion is felt to be too driven by Council Officers and the volume of information provided can be difficult to digest. We noted, by way of example, that the 2019/20 internal audit plan was agreed by the AC without any discussion on its content.

Summary of recommendations

There was a range of views of how aspirational the AC should be; ranging from good enough to best in class. There is value in opening up this conversation and seeking to agree a shared point of view. Stakeholders who regularly attended AC recognised that improvements are needed in the way the AC is currently operating although, again, stakeholders almost universally recognised the AC has taken positive steps during the last 12 months and cited the current Chair as being particularly keen to improve.

Below we have provided a summary of the key recommendations, many of which reflect the fact that the AC is in 'improvement mode' and improvement is likely to be an iterative process over time. Some recommendations need to be re-visited once initial improvement have been embedded:

- The AC Chair to attend and present an annual report of the findings and recommendations from the AC to the full Council;

- The appointment of an independent advisor;

- A short communication programme to raise the awareness of AC, its role, remit and the distinctions between the role of AC and various scrutiny committees. This should consider one-off communications, inductions and update training.

- Consider introducing a proposed rotation of Officers and the relevant Cabinet Member attending the AC to present a summary of their key risks and the results of audit reports. This should enable the AC to improve interactions with Officers and Members, provide a better link back into Council and also help the AC to gain a better understanding of the activities of the Council.

- Revisit the Audit Committee Forward Plan and meeting agendas to ensure the AC has the right balance of activity. Consider increasing the number of meetings to allow for greater capacity to consider non-statutory matters. The agenda/attendees at the additional meetings could be linked to the issues being discussed at the monthly CLT meetings focussing on similar matters.

- A detailed mapping exercise of the three lines of defence (see Appendix 2) linked to the key areas of risk to the Council is needed to help identify any potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.

- Determine the skills and qualities required for the AC and consider how gaps could be filled through training, the appointment of new members and/or external support.

- Review the quantity and quality of reports received from officers to determine if these are adequate for the AC to carry out its role successfully and challenge Officers to deliver succinct reports and presentations.

2

Audit Committee Effectiveness: In relation to the key principles from CIPFA's Position Statement

2.1 Audit Committee purpose and governance

| Purpose and Governance | Membership and support | Functions | Effectiveness |

Description and recommendations

Areas of good practice

- The Audit Committee meets seven times a year.

- The terms of reference sets out the purpose of the AC and meets many of the recommendations from the CIPFA Position Statement.

- The Audit Committee has access to all audit reports and is able to request the relevant officers attend the AC to explain any issues.

- The Committee has reviewed and challenged External Audit VFM conclusion and requested updates and assurance from senior officers across the Council.

- The Annual Governance Statement is reviewed on an annual basis and the AC monitors progress on key areas of concern.

Findings

- The purpose of the AC is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance, however, there are key gaps in the Committee's current terms of reference which are recommended within the CIPFA position statement. These include: raising awareness of the need for a strong internal control environment; contributing to the improvement of the control environment; and advising on the adequacy of the assurance framework.

- The AC does not report to full Council. Given audit committees are generally considered to provide to 'those charged with governance' independent assurance on the adequacy of the risk management framework, internal controls, financial reporting and annual governance this potentially reduces its effectiveness.

- Interviewees confirmed there remains a lack of clarity between the role of the AC and that of the Scrutiny Committees; in particular the Finance and Resources Overview and Scrutiny Committee. Interviews indicated that a number of findings and reports were being discussed at both and there was a common feeling that AC regularly adopt a Scrutiny type role focussing on policy matters rather than governance, risk and control considerations. Members can still seek to "hold Officers to account" and challenge perceived policy failures.

- Interviewees felt that there was very little awareness of the existence of, or at least the remit of, the AC beyond those on the AC and that the level of interaction between the AC and Internal Audit and Cabinet members was unusually low.

Recommendations

3.1.1 The AC should work with BA to develop their understanding of the Council's internal control environment and assurance framework using a three lines of defence model (see Section 3.3 and Appendix 2). Over time BA and AC could refine their work programme based on the understanding of the strengths of the first and second lines of defence.

3.1.2 The AC should produce an annual report which they present to Council and they should agree criteria for any interim reporting (e.g. when they have significant concerns).

3.1.3 A short statement on the role of the AC should be read out at every meeting to ensure the focus of discussion is on governance, risk and controls and not policy decisions taken. The Committee should agree to end discussions which drift into policy areas.

3.1.4 The Council should determine conclusively whether or not the policy to prevent Members sitting on AC and Scrutiny Committees is appropriate and either enforce or amend the policy.

3.1.5 Further to 3.1.4 a short communication programme should be considered to raise the awareness of AC, its role, remit and the distinctions between the role of AC and various scrutiny committees. This should consider one-off communications, inductions and update training.

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2.2 Membership and support

Description and recommendations

Areas of good practice

- The Committee is independent from the executive and has membership from all parties represented in the Council.

- Attendees include the CFO, Chief Executive, Head of Internal Audit and the External Auditor.

- The Chair has a good relationship with internal audit and the CFO and is able to meet with both ahead of the Audit Committee as required..

Findings

- CIPFA recommend that a Committee's membership 'is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role' with the 'right mix of apolitical expertise'. The following issues in relation to current membership hinder the ability of the AC from fulfilling its role adequately:
  - Some members of the AC also sit on the Finance and Resources Overview and Scrutiny Committee. This is in contravention to the Council's own guidelines.
  - There are no prerequisite skills needed or role profile for the Chair or AC members and no induction or formal training has been provided. Training has been offered historically but not taken up. A number of interviewees considered that the current AC has a limited understanding of good practice in relation to corporate governance or assurance which would indicate further training is required.
  - The role of the Chair is seen as important within the Council and interviewees suggested that it is seen as a good stepping stone to other roles. However, this has led to a large turnover in the role over the last few years and stakeholders commented that this excessive churn, variability in the quality of the Chair and lack of independence has impacted the effectiveness of the AC. As an apolitical AC there is the opportunity to consider appointing future Chairs from any party.
  - There is no independent member on the AC which is atypical of a modern AC in the sector. There were differing views as to whether independent support is best provided in the form of an independent member, and independent chair of a from more specialist support without requiring AC membership, such as by the appointment of an independent advisor who could join the AC for the pre-meeting to coach members what to consider.

Recommendations

3.2.1 Cabinet should review the AC membership and consider the following changes:
- Determine the skills needed for the AC members, including the Chair, to ensure that the AC has the skills to cover the activities within its terms of reference (governance, risk management etc.) as well as other core business skills and those of strategic importance to the Council (IT, change management etc.).
- Carry out a gap analysis between the skills needed and the skills within the current membership.
- Supplement the skills and independence of the AC through the appointment of an independent Chair, Member, or advisor. An advisor could attend the AC pre-meet to help coach and advise Members on key topics ahead and how best to approach discussions on areas of concern ahead of the AC meetings .
- Develop a training programme to fill the gaps including induction training. Given that a number of members are short of time, this may need to be a series of short briefings, delivered over the year or more innovative, coaching tailored to the AC agenda.
- Ensure that independence is maintained through separation of Audit and Scrutiny roles; both in terms of membership and training on the remit of each.
- Reconsider the current need to appoint the Chair from the ruling party. As an apolitical AC it could be that going forward the appointment is party agnostic and focussed on securing the most appropriate skilled and experienced candidate.

3.2.2 Consider introducing a proposed rotation of Officers and the relevant Cabinet Member attending the AC to present a summary of their key risks and the results of audit reports. This should enable the AC to improve interactions with Officers and Members, provide a better link back into Council and also help the AC to gain a better understanding of the activities of the Council.

3.2.3 Reports and presentations to AC should be clearer, more concise quality outputs which contribute to the development of the AC's skills and their understanding of the Council's control environment.

2.3 Functions of the committee

Purpose and Governance	Membership and support	Functions	Effectiveness

Description and recommendations

Areas of good practice

- The Committee's functions are wide ranging and include: the review of BCC's annual accounts and annual governance statement; internal and external audit; the management of fraud; treasury management arrangements; and ombudsman reports/response.

- Stakeholders commented that Officers did a good job of explaining key aspects of the annual accounts.

- The Committee considers the effectiveness of the risk management framework, it receives quarterly updates on the strategic risk register and it has called risk owners to the Committee to provide updates and assurances.

- The Committee maintains its advisory role by not taking on any decision-making powers that are not in line with its core purpose.

- The Committee's role does not include value for money but the External Auditor reports on this aspect of the Council's performance.

- The Chair develops an annual plan for the Committee which ensure all of its functions are carried out during the year.

2.3 Functions of the committee

Findings

- CIPFA recommends that the audit committee should 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 governance processes.

- Currently the AC is fulfilling part of that role, but assurance activities are not sufficiently cohesive for the AC to be able to understand and assess the strengths and weaknesses of the control environment. These are some specific issues we noted in our review:
  - The risk register now focuses on more strategic risks. However, it is detailed and contains a significant number of risks. At present the AC does not dedicate enough time to focus on how strategic risks are managed. Stakeholders felt discussions on risk should be higher on the AC's agenda.
  - The internal audit plan is not aligned to the areas of highest risk for the Council. The 2020/21 plan includes only 5% of reviews focused in high risks areas and in 2019/20, there were 121 audits carried out with 70 rated as low with no material issues.
  - There is limited challenge or discussion on the internal audit plan; the 2019/20 internal audit plan was approved by the AC with no discussion or questions asked.
  - The internal audit activity does include some assessment of first and second line assurance as part of reviewing controls in individual internal audit reviews. However, there are no reports to AC on the adequacy of first line and second line activities at a higher level.
  - Stakeholders commented that internal audit reports regularly pick up issues which the first line should have identified but there is limited formal integration of what each line of defence should be focussing on.

- There has been no formal evaluation of whether the AC is fulfilling all aspects of its terms of reference and whether the balance and quality of discussions was adequate.

- There is uncertainty over where the boundaries of the AC lie in relation to group entities and organisations that cross the Council boundaries. An example is the existence of the Cabinet Committee Group Company Governance with a remit covering the management of governance, risk and controls for Council group entities.

Recommendations

There a number of changes needed for the AC to operate at the level recommended by CIPFA. Many of the findings reflect the fact that the AC is in 'improvement mode' and this is likely to be an iterative process over time; some will need to be re-visited once initial improvement have been embedded. The following changes should be introduced over the next 12 months:

3.3.1 Develop a comprehensive assurance framework for the Council using the three lines of defence. This will enable the AC to understand all key sources of assurance and to challenge gaps and unnecessary duplication (for example is the current focus on core financial systems justified). BA produced a simple three lines of defence paper in 2018, a similar paper mapped to the internal audit plan would be a good first step.

3.3.2 Revisit the Audit Committee Forward Plan and meeting agendas to ensure that gaining assurance on the adequacy of the risk management framework is given greater prominence and time (see 3.4.1).

3.3.3 Provide a greater level of challenge to the HIA in relation to the internal audit plan including: questioning BA's opinion on what should be included in the plan; any potential gaps; any reviews which BA do not think are needed or could be delivered with a reduced scope.

3.3.4 The annual internal audit report should provide a greater level of analysis of the adequacy of first and second line assurance based on findings from internal audit reviews.

3.3.5 Formally complete an annual self-assessment of its effectiveness and use that process to drive and measure improvements. These could be reported to Council under recommendation 3.1.2.

3.3.6 The Council should review the role played by Audit Committee for governance, risk and controls for all Council group entities and cross-organisational boundary strategic partnerships (such as in relation to the Commonwealth Games 2022). In particular a review of the remit of Committee and the Cabinet Committee Group Company Governance would be helpful to avoid any duplication or gaps in coverage regarding governance, risk and control matters associated with group entities.

2.4 Effectiveness of the Committee

Purpose and Governance	Membership and support	Functions	Effectiveness

Description and recommendations

Areas of good practice

- The stakeholders interviewed thought there was a good level of discussion and engagement from some members.

- There is an action tracker in place to ensure recommendations are tracked.

- The Committee receives an annual and half yearly update report from internal audit and a monthly schedule of final audit reports issued (which includes assurance and risk ratings)

- A detailed pre-meeting has been introduced to limited the volume of information being presented at the Committee. The pre-meet includes the same officers – HIA, CFO, Solicitor for legal issues and the relevant officers who may need to present on specific issues (internal audit findings or risk mitigation activity).

Findings

- Stakeholders generally felt that the agenda and discussion is largely driven by the information provided Council Officers; in audit and beyond. Going forward the AC needs to take greater ownership if they want to be more effective and strategic. There was a widely shared view that the agenda is too broad which, given the two hour time limit, restricted effective discussions of the most critical items.
- Given the volume of information provided to the AC and the number of items on the agenda, stakeholders commented that it can be difficult to challenge the conclusions contained in the information presented and key issues could be missed. Some AC members felt that information was either being hidden, misrepresented or delayed for political purposes.
- The AC are able to ask any Officers to present to them on significant risk and audit issues but a number of directors have never attended an AC meeting. A number of stakeholders commented that this is not what they have seen elsewhere and it is rare for an Officer to be asked to the AC even for major risks and issues.
- Interviewees suggested that discussions can often driven by a political agenda rather than to facilitate the AC's understanding of the control environment, or help the Council's improvement journey.
- Most interviewees felt that discussions are typically about backward-looking at historical issues rather than forward looking discussions on the management of current or future risks. This, coupled with a view that often discussions are looking to assign 'blame' rather than learn lessons led many interviewees to consider discussions were too late to make a real difference or have any impact.

Recommendations

3.4.1 The AC should consider holding a dedicated session to restructure the annual plan and to work with key stakeholders like BA to decide how the AC could be more effective with the time available or. Seven meetings capped at two hours is relatively limited and more time would for allow broader or deeper discussions so we recommend considering increasing the number of meetings to allow for greater capacity to consider non-statutory matters. The agenda/attendees at the additional meetings could be linked to the issues being discussed at the monthly CLT meetings focussing on similar matters. (see recommendation 3.2.2).

3.4.2 At present all items are given equal merit on the agenda. Other organisations operate an 'above the line' and 'below the line' system whereby the former are presented and discussed as a matter of course. The information below the line are for information but can be discussed if requested. This may help focus discussions on the priority matters.

3.4.3 Better quality and shorter reports supported by succinct presentations of salient points would enable the AC to understand the information and provide a greater level of challenge. Members could work with BA to design templates that would be appropriate for different types of reviews or for different report ratings .

3.4.4 The Chair has an aspiration to invite representatives from each directorate to present on the risks and the control environment within their part of the Council. This is likely to be on a rolling basis with all directorates being covered each year. This should help broaden the discussion and help improve the AC's understanding of the overall control environment.

3.4.5 When developing the Forward Plan there is an opportunity to ensure greater focus on emerging risks and future risks alongside receiving IA reports and more broadly discharging its regulatory requirements.

July 2020

Appendix 1: Stakeholder interviews

Stakeholder interviews

Name of Attendee	Stakeholder	Role
Graham Betts	Council Leadership Team	Acting Chief Executive and Adullt Social Care
Rebecca Hellard	Council Leadership Team	Chief Financial Officer
Tim O'Neil	Council Leadership Team	Director Education and Skills
Peter Bishop	Council Leadership Team	Director, Digital and Customer Services
Ian Macleod	Council Leadership Team	Director, Inclusive growth
Dawn Hewins	Council Leadership Team	Director, Human Resources
Jonathon Tew	Council Leadership Team	Assistant Chief Executive
Robert James/Chris Jordan	Council Leadership Team	Director, Neighbourhoods
Sarah Dunlevey	Other Stakeholders	Assistant Director Audit and Risk Management
Fred Grindrod	Audit Committee	Chairman Audit Committee - Labour
Paul Tilsley	Audit Committee	Audit Committee - Liberal
Merion Jenkins	Audit Committee	Audit Committee - Conservative
Brigid Jones	Cabinet	Deputy Leader

Appendix 2: The three lines of defence

The Three Lines of Defence (3LoD) summarised

To ensure the effectiveness of an organisation's risk management framework, those charged with governance need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation. PwC and the Institute of Internal Auditors endorse the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

1. The first line of defence – functions that own and manage risk. Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks and controls.

2. The second line of defence – functions that oversee or specialise in risk management and compliance. The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

3. The third line of defence – functions that provide independent assurance, above all internal audit. Internal audit (though increasingly other external providers of assurance too) form the organisation's third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to those charged with governance. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.

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