



City of Westminster

Audit & Performance Committee Report

Date:	2 May 2019
Classification:	For General Release
Title:	Review of Effectiveness
Wards Affected:	All
Financial Summary:	There are no direct financial implications arising from this report, which considers the effectiveness of arrangements for finance, audit and governance.
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1. Executive Summary

- 1.1 Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives.
- 1.2 As a public body accountable for the delivery of local services and management of public funds, transparency and accountability are key, with appropriate mechanisms to provide challenge and scrutiny. In discharging its responsibilities, the Council needs to ensure that the roles and responsibilities are clear, understood and cover all aspects of the Council's business.
- 1.3 To contribute to the assurances that such arrangements are in place, a number of reviews have been undertaken by the Executive Director – Finance & Resources and Director of Audit, Fraud, Risk and Insurance which have focused on effectiveness in the following areas:
 - The Role of the Chief Financial Officer (S151);
 - The Role of the Head of Internal Audit;
 - Compliance with the Public Sector Internal Audits Standards (PSIAS);
 - The Role of the Audit & Performance Committee.
- 1.3 The outcome of these reviews undertaken on the above are set out in this report.

2. Recommendations

- 2.1 That the Committee note this report and outcomes of the reviews the effectiveness undertaken, including an assessment against the CIPFA Toolkit for Effective Audit Committees, and the actions being taken by officers to further enhance existing arrangements and practice.
- 2.2 That the Committee consider the recommendations arising from the assessment against the CIPFA Toolkit for Effective Audit Committees set out in paragraph 4.5.4 of the report.

3. Background, including Policy Context

- 3.1 The corporate governance arrangements of the Council are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and viability is ensured. As well as being a key element in improving efficiency and effectiveness within the Council, corporate governance is one of the primary means by which a set of relationships is established between management, Members and stakeholders. There is a clear benefit to the Council in adopting effective frameworks of corporate governance.
- 3.2 In general, good corporate governance provides proper incentives for the Council and its management to pursue objectives that are in the interests of the authority and its stakeholders and provide a framework that facilitates effective monitoring.
- 3.3 The Council is entrusted with public funds and therefore has a duty to observe the highest standards of corporate governance at all times and ensure that they are discharging their duties with due regard to the proper conduct of public business.
- 3.4 In summary, the Council should:
 - observe the highest standards of integrity, objectivity and honesty in the transaction of all its business;
 - follow a policy of openness and transparency;
 - be accountable for its stewardship of funds; and,
 - maximise value for money by ensuring that services are delivered in the most effective, efficient and economical way.
- 3.5 Good governance enables self-regulation and minimises the need for external regulation. Assurance on the Council's governance arrangements is provided through a number of sources, including regular internal audit and finance/performance reports to the Committee as well as the Annual Governance Statement.
- 3.6 In addition to this, the Council periodically considers its arrangements and practice against a variety of externally-published sources of good practice by professional bodies, such as CIPFA.

4. Summary of the Independent Reviews of Effectiveness

4.1 The Role of Chief Financial Officer (S151)

4.1.1 The Chief Financial Officer (CFO) occupies a critical position within the Council. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government describes the role and the responsibilities of the CFO and sets out how the requirements of legislation and professional standards should be fulfilled by the CFO in carrying out their role.

4.1.2 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- The Organisation;
- The Role: and,
- The Individual.

4.1.3 The five principles are as follows:

- The CFO in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;
- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy;
- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively;
- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose; and,
- The CFO in a local authority must be professionally qualified and suitably experienced.

4.1.5 For each principle the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation. Many of the day-to-day responsibilities may in practice be delegated or even outsourced, but the CFO should maintain oversight and control. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their CFO. These include the key requirements of CIPFA and the other professional accountancy bodies' codes of ethics and professional standards to which the CFO as a qualified professional is bound.

4.1.6 A detailed self-assessment has been undertaken and has been subject to independent review and challenge by the Director of Audit, Fraud, Risk and Insurance. The self-assessment accurately identified that all of the principles are currently being met with a number of areas of strength noted, including:

- The CFO is a member of the Executive Leadership Team, where roles and responsibilities are clearly defined. The CFO leads on the development of the Council's Medium Term Plan (budget setting) and advising ELT and members on financial matters including budget setting and monitoring. ELT members are experienced and successful in managing their budgets.
- Successful implementation of new financial systems in 2018/19 while continuing to close the Council's accounts promptly after the financial year end, to enable sign off by the external auditor well in advance of the statutory deadline. Significant training and support provided to managers as part of the roll out to ensure that budget financial management responsibilities were understood across departments.
- Regular assurance is provided in respect of financial performance and compliance with statutory, professional and policy requirements, both for the Council and treasury/pensions functions, through reporting to the Audit and Performance Committee and Pensions Committee.
- A strong commitment to recruiting qualified and experienced staff throughout the Finance structure, including a range of specialists, who are able to support the whole organisation in the delivery of services and robust governance and decision making arrangements. The Finance team has a clear vision to be "best in class" with the ambition to be a leading edge department in all aspects. It has a strong focus on ongoing training and development and performance management.

4.1.7 The self-assessment identified a small number of actions, some of which were already in progress when the self-assessment was being undertaken, to further enhance existing arrangements and practice:

- The Scheme of Delegation, which underpins the Council's decision making arrangements, will be updated to reflect the appointment of the new Executive Director – Finance & Resources in respect of his role and title referred to throughout the document;
- The Finance & Resources Management Team will review the IFAC Code of Ethics for Professional Accountants and ensure that all Finance staff are briefed on its contents as appropriate;
- The enhanced strategic budget setting process which is currently being developed to focus on outcomes and key member prioritisation focussed on City for All will result in a 3-year Medium Term Plan being developed; and,
- Reviews of the property and procurement functions are currently in progress and revised strategies for these functions will be presented to members when the reviews have been completed.

4.2 **Role of Head of Internal Audit**

4.2.1 The objective of the review was to ensure that the Head of Internal Audit is complying with the requirements as set out in CIPFA's 'The Role of the Head of Internal Audit in Public Service Organisations' issued in July 2010.

4.2.2 CIPFA's Statement on the role of the Head of Internal Audit in public service organisations refers to the following:

- The Head of Internal Audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance.
- Internal audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of their organisation's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports, the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.
- The HIA's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when organisations are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA's role as a critical friend means that sometimes difficult messages must be given and acted on.

4.2.3 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of the organisation, the role and the individual.

4.2.4 The five principles are as follows:

- The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments;
- The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
- The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose; and
- The HIA in a public service organisation must be professionally qualified and suitably experienced.

For each principle the Statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA.

4.2.5 A self-assessment has been undertaken by the Director of Audit, Fraud, Risk and Insurance which has been subject to independent review, with the draft findings identifying the following areas where effectiveness could be further improved:

- The Director on Internal Audit, Fraud, Risk Management & Insurance (HIA) also has responsibility for Fraud and Insurance services for the Council. In order to manage any potential conflicts of interest, delivery of the audit service is supported by external providers and a Head of Service is in place for each service;
- Following the procurement of a new finance, HR and payroll system via a shared service arrangement with Hampshire County Council, audit working protocols need to be developed with Hampshire County Council and potentially its other partners;
- The HIA is looking to develop an assurance map which will inform the audit plan. The map will look at other sources of assurance and provide a more detailed analysis justifying the areas of audit activity;
- As requested by the Executive Director of Finance and Assets, a review is planned on the governance of organisations which are wholly owned by the Council. Following this review future audit activity with such bodies should be determined;
- Consideration should be given to including key performance indicators within the Audit Charter.

4.4 **Public Sector Internal Audit Standards (PSIAS)**

4.4.1 The Public Sector Internal Audit Standards (PSIAS) require the chief audit executive to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

An Internal Audit Quality Assessment Framework is used to help drive forward the quality of internal audit, enable the sharing of good practice and the identification of common issues and areas for development. The Framework has four sections reflecting four questions that the evaluation should seek to address:

- Purpose and positioning – Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?
- Structure and resources – Does the internal audit service have the appropriate structure and resources to deliver the expected service?
- Audit execution – Does the internal audit service have the processes to deliver an effective and efficient internal audit service? And
- Impact – Has the internal audit service had a positive impact on the governance, risk and control environment within the organisation?

4.4.2 Each section is divided into several sub-sections covering key elements of an effective internal audit service. For each sub-section a series of statements of good practice are provided as a guide in determining the performance of the service. Against this an assessment is made as to the degree of conformance using the following scale, aligned with the Public Sector Internal Audit Standards:

- **Fully Conforms** the reviewer concludes that the internal audit service fully complies with each of the statements of good practice;
- **Generally Conforms** means the reviewer has concluded that the relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects;
- **Partially Conforms** means the reviewer has concluded that the internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit;
- **Does Not Conform** means the reviewer has concluded that the internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the objectives and good practice statements. These deficiencies will usually have a significant negative impact on the internal audit service's effectiveness and its potential to add value to the organisation.

4.4.3 The HIA is required to demonstrate compliance with the Standards through reports provided to senior management and the Audit and Performance Committee during the year, including the:

- Head of Internal Audit Annual Report;
- Internal Audit Strategy and Internal Audit Plan;
- Internal Audit Charter; and,
- Regular reporting on the work of Internal Audit, including completed reviews and the outcome of follow ups.

4.4.4 It is recommended that a periodic evaluation be performed internally (either self-assessment or by another internal audit service) to provide on-going feedback on the quality of the internal audit service. In addition, a formal assessment should be carried out by an independent, external contractor at least once every five years as set out in the Public Sector Internal Audit Standards.

4.4.5 A self-assessment has been completed which has identified that the Council's Internal Audit Service generally conforms to the PSIAS with minor improvements required in respect of updating procedures to reflect changes in the structure of the service in the past year. It is envisaged that the service will undergo an external assessment during 2019/20.

4.5 **Role of the Audit & Performance Committee**

4.5.1 Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for

the discussion of issues raised by internal and external auditors. CIPFA believes that these functions are best delivered by an audit committee separate from executive functions. The committee must also have a clear right of access to full council, and other council groups and committees as appropriate.

4.5.2 CIPFA have developed a toolkit which is intended to provide examples of good practice to assist both officers and members who are involved in the establishment and operation of an audit committee. The toolkit includes areas of existing best practice from local government and the wider public sector.

4.5.3 The toolkit includes a self-assessment checklist which covers the following areas:

- Establishment, operation and duties: role, remit, membership, induction and training;
- Internal controls;
- Financial reporting and regulatory matters;
- Internal audit;
- External audit;
- Administration: agenda management, papers and actions arising.

4.5.4 An assessment has been completed, which has been subject to review by the Chairman and members of the Committee, which is shown in Appendix 1. The assessment shows the high degree of compliance the Committee already demonstrates in respect of CIPFA's best practice statements, with three specific recommendations to be considered at the Committee meeting to further enhance existing arrangements:

- consider the merits of including to a provision to co-opt independent members to the Committee e.g. for specific topics/areas of expertise.
- consider providing an annual report to Council on its work and performance during the year, and that the Committee recommend a similar provision be made for the Pension Fund Committee, Standards Committee and Scrutiny Commission.
- consider using the CIPFA Knowledge and Skills Framework for Audit Committees self-assessment (see Appendix 2) to identify any topics for future briefings which would assist the work of the Committee.

4.5.5 In addition, CIPFA also provide a Knowledge and Skills Framework for Audit Committee members which is provided in Appendix 2. The Committee are invited to consider the use framework to identify any topics for future briefings which would assist the work of the Committee.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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BACKGROUND PAPERS

Self-Assessment CFO

Self-Assessment HIA

Self-Assessment PSIAS

Self-Assessment – CIPFA Toolkit for Audit Committees