

Evaluating the impact and effectiveness of the audit committee

An audit committee’s effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority’s business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as ‘influence’, ‘persuasion’ and ‘support’.

The improvement tool below can be used to support a review of effectiveness. It identifies the broad areas where an effective audit committee will have impact.

Figure 1: The influential audit committee



The table includes examples of what the audit committee might do to have impact in each of these areas.

The third area includes key indicators that might be expected to be in place if arrangements are in fact effective. These indicators are not directly within the control of the audit committee, as it is an advisory body. They do provide an indication that the authority has put in place adequate and effective arrangements, which is the purpose of the committee.

Use the tool for discussion and evaluation of the strengths and weakness of the committee, identifying areas for improvement.

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
1. Promoting the principles of good governance and their application to decision making.	<ul style="list-style-type: none"> Supporting the development of a local code of governance. Providing a robust review of the AGS and the assurances underpinning it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships. 	<ul style="list-style-type: none"> Elected members, the leadership team and senior managers all share a good understanding of governance, including the key principles and local arrangements. Local arrangements for governance have been clearly set out in an up-to-date local code. The authority’s scrutiny arrangements are forward looking and constructive. Appropriate governance arrangements established for all collaborations and arm’s-length arrangements. The head of internal audit’s annual opinion on governance is satisfactory (or similar wording). 	<ul style="list-style-type: none"> <i>Committee is aware that the Local Code of Corporate Governance is used for annual self-assessment, and scrutinised AGS prior to its inclusion in Annual Report and Accounts.</i> <i>Chair met with the Chief Executive as and when required.</i> <i>Committee supports the role of audit in improving internal control and governance.</i> <i>Committee considers national reports and uses self-assessment toolkits.</i> <i>Chair met partners’ Audit Committees’ Chairs (IJB and NHS Borders) on 21 August 2023 and commits to meeting on an annual basis (as a minimum).</i> <p>Rating 5 of 5 (2022/23 = 4)</p>
2. Contributing to the development of an effective control environment.	<ul style="list-style-type: none"> Encouraging ownership of the internal control framework by appropriate managers. Actively monitoring the implementation of recommendations from auditors. Raising significant concerns over controls with appropriate senior managers. 	<ul style="list-style-type: none"> The head of internal audit’s annual opinion over internal control is that arrangements are satisfactory. Assessments against control frameworks such as CIPFA’s FM Code have been completed and a high level of compliance identified. Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement. 	<ul style="list-style-type: none"> <i>Committee received periodic progress reports from Auditors e.g. follow-up activity.</i> <i>Action Tracker used to assign tasks to relevant Directors/Managers and to monitor completion of Committee recommendations.</i> <i>Ongoing Improvement – ensuring delivery on dates agreed to hold Management to account.</i> <p>Rating 4 of 5 (2022/23 = 4)</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p>3. Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</p>	<ul style="list-style-type: none"> • Reviewing risk management arrangements and their effectiveness, e.g. risk management maturity or benchmarking. • Monitoring improvements to risk management. • Reviewing accountability of risk owners for major/strategic risks. 	<ul style="list-style-type: none"> • A robust process for managing risk is evidenced by independent assurance from internal audit or external review. 	<ul style="list-style-type: none"> • <i>Improvement c/f – support Management proposals for risk management benchmarking i.e. Risk Management Maturity Assessment 2023/24.</i> • <i>Committee considered update on Risk Management activity within Annual Report.</i> • <i>Committee received risk presentations by various Directors, as per agreed schedule, on key risks and mitigations to gain assurance on strategic risk management.</i> <p>Rating 4 of 5 (2022/23 = 4)</p>
<p>4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</p>	<ul style="list-style-type: none"> • Reviewing the adequacy of the leadership team’s assurance framework. • Specifying the committee’s assurance needs, identifying gaps or overlaps in assurance. • Seeking to streamline assurance gathering and reporting. • Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit. 	<ul style="list-style-type: none"> • The authority’s leadership team have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies. 	<ul style="list-style-type: none"> • <i>Committee considered Annual Plans and Reports received from appointed External Auditor, and received relevant national reports for assurance purposes.</i> • <i>Internal Audit Strategy contains the SBC assurance framework.</i> • <i>Committee seeks information on how internal and external audit interact with each other. Development Session 29 August 2023 on External Audit role in public sector.</i> • <i>Improvement: development sessions on External Audit role and best value area of focus, and Assurance Framework.</i> <p>Rating 4 of 5 (2022/23 = 4)</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
5. Supporting effective external audit, with a focus on high quality and timely audit work.	<ul style="list-style-type: none"> Reviewing and supporting external audit arrangements with focus on independence and quality. Providing good engagement on external audit plans and reports. Supporting the implementation of audit recommendations. 	<ul style="list-style-type: none"> The quality of liaison between external audit and the authority is satisfactory. The auditors deliver in accordance with their audit plan, and any amendments are well explained. An audit of high quality is delivered. 	<ul style="list-style-type: none"> <i>Committee considered Annual Plans and Reports received from appointed External Auditor, and received relevant national reports for assurance purposes.</i> <i>Committee seeks information on how internal and external audit interact with each other.</i> <i>Committee considered Annual Audit Report.</i> <i>Improvement: private session with External Auditor</i> <p>Rating 4 of 5 (2022/23 n/a)</p>
6. Supporting the quality of the internal audit activity, in particular underpinning its organisational independence.	<ul style="list-style-type: none"> Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements. Actively supporting the quality assurance and improvement programme of internal audit. 	<ul style="list-style-type: none"> Internal audit that is in conformance with PSIAS and LGAN (as evidenced by the most recent external assessment and an annual self-assessment). The head of internal audit and the organisation operate in accordance with the principles of the CIPFA Statement on the Role of the Head of Internal Audit (2019). 	<ul style="list-style-type: none"> <i>Committee approved the Internal Audit Charter, noting PSIAS requirements.</i> <i>Committee approved the Internal Audit Strategy and Plan, and considered regular Reports on Internal Audit work, raised queries and endorsed recommendations.</i> <i>Committee received QAIP and PSIAS conformance, including outcomes of EQA process, within Internal Audit reports.</i> <i>Development Session 30 October 2023 'role of internal audit'</i> <i>Improvement – refresh on Internal Audit role and process with a corporate audit example</i> <p>Rating 5 of 5 (2022/23 = 4)</p>

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<p>7. Aiding the achievement of the authority’s goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.</p>	<ul style="list-style-type: none"> • Reviewing how the governance arrangements support the achievement of sustainable outcomes. • Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. • Reviewing the effectiveness of performance management arrangements. 	<ul style="list-style-type: none"> • Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives. • The authority’s arrangements to review and assess performance are satisfactory. 	<ul style="list-style-type: none"> • <i>Auditors provided assurance reports on governance of transformation programme, sustainability, and performance management, including lessons learned and best practice.</i> • <i>Assurance gained from those members on the Executive Committee on how it fulfils its performance monitoring role. Minutes of Executive Committee provided to External Members for information.</i> • <i>Improvement – Update of capital projects risk and PMO role by Director I&E May 2024</i> <p>Rating 4 of 5 (2022/23 = 4)</p>
<p>8. Supporting the development of robust arrangements for ensuring value for money.</p>	<ul style="list-style-type: none"> • Ensuring that assurance on value-for-money arrangements is included in the assurances received by the audit committee. • Considering how performance in value for money is evaluated as part of the AGS. • Following up issues raised by external audit in their value-for-money work. 	<ul style="list-style-type: none"> • External audit’s assessments of arrangements to support best value are satisfactory. 	<ul style="list-style-type: none"> • <i>Auditors provided assurance on value for money arrangements via Best Value area of focus 2022/23.</i> • <i>AGS sets out the Governance Framework including arrangements for best value.</i> • <i>Committee places reliance on the Executive Committee for financial and service delivery performance monitoring.</i> • <i>Development Session covering overview of Procurement framework on 5 February 2024.</i> • <i>Improvement: Committee Action Tracker includes follow-up to critically evaluate progress with delivery of Best Value action.</i> <p>Rating 4 of 5 (2022/23 = 3)</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p>9. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</p>	<ul style="list-style-type: none"> • Reviewing arrangements against the standards set out in the <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (CIPFA, 2014). • Reviewing fraud risks and the effectiveness of the organisation’s strategy to address those risks. • Assessing the effectiveness of ethical governance arrangements for both staff and governors. 	<ul style="list-style-type: none"> • Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements. 	<ul style="list-style-type: none"> • <i>Committee considered update on Counter Fraud activity within Annual Report associated with the Counter Fraud Policy & Strategy.</i> • <i>Committee considered outcomes of Counter Fraud Controls Assessment by Integrity Group against fraud cases in national reports.</i> • <i>Auditors provided assurance reports on fraud risks and counter fraud controls.</i> • <i>Committee places reliance on the Standards Committee fulfilling its role.</i> • <i>Improvement – Development Session by Monitoring Officer on ethical standards in public life – relevant to AC remit.</i> <p>Rating 4 of 5 (2022/23 = 4)</p>
<p>10. Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability.</p>	<ul style="list-style-type: none"> • Working with key members to improve their understanding of the AGS and their contribution to it. <i>(moved from no.1)</i> • Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of plain English. • Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency. • Publishing an annual report from the committee. 	<ul style="list-style-type: none"> • The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality. • The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion. • The authority has published its financial statements and AGS in accordance with statutory guidelines. • The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements. 	<ul style="list-style-type: none"> • <i>Committee scrutinised annual accounts and reports prior to publication and statutory audit, and commented on the format/content for users, and scrutinised audited accounts.</i> • <i>Annual Audit Report 2022/23 confirmed unqualified opinion – 25 September 2023.</i> • <i>Chair met partners’ Audit Committees’ Chairs (IJB and NHS Borders) 21 August 2023 and commitment to meeting on an annual basis (as a minimum) to understand transparency and accountability in partners.</i> • <i>Committee’s Annual Report presented to Council and published for transparency.</i> • <i>Improvement – when Committee scrutinises the unaudited accounts 2023/24 it needs to confirm that feedback has been considered and has been addressed as appropriate.</i> <p>Rating 4 of 5 (2022/23 = 4)</p>

OVERALL QUESTIONS TO CONSIDER

- 1 Does the committee proactively seek assurance over the key indicators?
- 2 How proactive is the committee in responding to aspects of governance, risk, control and audit that need change or improvement?
- 3 Are recommendations from the committee taken seriously by those responsible for taking action?

REPORTING RESULTS

The outcome of the review can be used to inform the committee's annual report.