

Audit and Governance Committee

27 September 2023



Reading
Borough Council
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Title	CIPFA Practical Guidance for Local Authorities on Audit Committees
Purpose of the report	To note the report for information
Report status	Public report
Report author (name & job title)	Paul Harrington, Chief Auditor
Lead Councillor (name & title)	Cllr Liz Terry, Lead Councillor for Corporate Services and Resources
Corporate priority	Our Foundations
Recommendations	<ol style="list-style-type: none">1. That Audit and Governance Committee notes the key points arising from the CIPFA Audit Committees: <i>practical guidance for local authorities and police</i>, as summarised in section 2 below.2. That Audit and Governance Committee notes that Policy Committee agreed to recommend to Council in October that they approve the revised Audit & Governance Committee's terms of reference (appendix 1) and the removal of A&G's decision-making powers in relation to the approval of the annual financial statements, returning the latter to full Council.3. That Audit and Governance Committee notes that Policy Committee endorsed the recommendation of the Redmond Review that the external audit annual report should be submitted to full council by the external auditor and this would be put to Council in October for their formal approval.4. That Audit and Governance Committee notes that Policy Committee agreed to recommend to Council in October that the Audit & Governance Committee reports annually to Council on how it has complied with the CIPFA position statement, discharged its responsibilities, and includes an assessment of its performance. The report should be available to the public.

1. EXECUTIVE SUMMARY

- 1.1 CIPFA (The Chartered Institute of Public Finance and Accountancy) recently issued practical guidance for Local Authorities on Audit Committees, which included resources for Audit Committee members, a supplement for those responsible for guiding the committee, and a self-assessment of good practice. The guidance was partly in response to the Redmond Review¹, it updated previous CIPFA guidance from 2018 and complimented the CIPFA Position Statement on Audit Committees. It also incorporated recent legislative changes and professional developments following the Redmond Review. Whilst it is guidance, it is noted that *“CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements.”*
- 1.2 Audit committees are a key component of an authority’s governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee’s role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective.
- 1.3 In a local authority, the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council.
- 1.4 The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.
- 1.5 Using the CIPFA self-assessment tool, a self-assessment was conducted by Internal Audit in January 2023 against the CIPFA guidance and concluded that current arrangements ‘partially comply’ with the guidance, with ‘moderate’ improvement required. The purpose of this report is to provide a summary of the key points from the guidance and provide members with the outcome of the self-assessment carried out by Internal Audit, along with actions that Policy Committee has recommended be approved by Council in October 2023.
- 1.6 Although the detail of the guidance is provided in section 2 of the report, some of the more noteworthy changes are summarised as follows:
- CIPFA recommends that the audit committee is an advisory committee and does not have delegated powers, such as the approval of the financial statements. The role of the audit committee is to review the financial statements prior to approval. The statements are the responsibility of all those charged with governance.
 - CIPFA also recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.
 - CIPFA has endorsed the recommendations of the Redmond Review that the external audit annual report should be submitted to full council by the external auditor.
 - A committee size of no more than eight members should be established. CIPFA also recommends that the use of substitutes on the committee is avoided.
 - The audit committee should have oversight of counter-fraud arrangements to be able to judge whether the authority’s arrangements are fit for purpose.
 - The committee may wish to review the effectiveness of whistleblowing arrangements.
 - Tasks such as budget monitoring should not be undertaken by the committee.

¹ [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redmond, September 2020](#)

- As an advisory committee to those charged with governance, the Committee should be regularly held to account by full council.
- The committee report annually on how it has complied with the CIPFA position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.
- CIPFA has produced a model terms of reference for Audit Committees to adopt.
- The committee should operate in a non-political manner, with objective, open discussion on governance, risk and control issues.

2. SUMMARY OF CIPFA GUIDANCE

The revised and updated CIPFA Audit Committees: Practical Guidance For Local Authorities And Police (2022 edition) takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development.

The guidance is summarised under the following headings: Purpose of the Audit Committee, Independence and Effectiveness, Core Functions of the Audit Committee, Audit Committee Membership, Engagement & Outputs and Impact.

2.1 Purpose of the Audit Committee

- Be a key part of the Local Authority's governance framework.
- Provide an independent, high-level focus on governance, risk and control arrangements and their adequacy.
- May be delegated some governance responsibilities, but ultimately accountable to Full Council.
- Have oversight of internal audit, external audit, financial and governance reports to help ensure appropriate internal challenge and public accountability is in place.

2.2 Independence and effectiveness

The Audit Committee should:

- be directly accountable to the authority's governing body
- be independent of both the executive and the scrutiny function
- have no other functions, and explicitly no decision-making role
- have rights of access to, and constructive engagement with, other committees/functions
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size (CIPFA recommends no more than eight members) to operate as a group of experienced, trained committee members.

- include co-opted independent members in accordance with the appropriate legislation. Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.
- remain an advisory committee and not have delegated powers. It is noted that, currently, some authorities have delegated decisions such as the approval of financial statements to the audit committee. This takes the audit committee beyond its advisory role.

CIPFA recommends the inclusion of two co-opted independent members (rather than one as proposed by the Redmond review) for the following reasons:

- to supplement the elected members' knowledge and experience in specific areas such as auditing or financial reporting
- to provide continuity outside the political cycle, particularly where the committee membership changes annually/due to elections
- two co-opted members (as opposed to one) allows the recruitment of individuals with different but complementary knowledge and experience, thereby increasing the committee's resilience and continuity, and demonstrates a commitment to supporting and investing in the committee.

It is also noted that at the time of the Redmond Review (2020), from a representative sample of 27 Local Authority Audit Committees (not including FRAs or PCCs), 44% had independent members on them.

2.3 Core functions of the Audit Committee

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance both across the organisation and among all those charged with governance, fulfilling the principles of good governance and supporting the authority's ethical framework.
- Consider the effectiveness of the authority's risk management arrangements, including understanding the organisation's risk profile, and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative partnership and trading arrangements. It should also understand the roles of other committees to avoid duplication and confusion with its own role. Where the Audit Committee undertakes more in-depth risk reviews (as not carried out by other committees), it should be mindful of when it is acting as a risk committee rather than just an audit committee.
- Monitor the effectiveness of the internal control system, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to fraud and corruption risks.
- The audit committee's agenda should include counter fraud and corruption, and not be limited to an update to the committee on a significant case of fraud or corruption. It should also enable members to judge whether the authority's arrangements are fit for purpose.
- As part of the audit committee's oversight of the governance framework and assurances underpinning the Annual Governance Statement (AGS), the committee may wish to review the effectiveness of the whistleblowing arrangements.

- Support the effective implementation of agreed actions in improvement programmes arising from external inspections, peer reviews and other interventions.

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the AGS, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- It is good practice for accounts and the AGS to be reviewed by the Audit Committee prior to the external audit commencing and in the latter case also before being signed by the Leading Member and the authority's Chief Executive.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.
- Care should be taken to not overlap with financial scrutiny. Tasks such as budget monitoring should not be undertaken by the committee.
- Where the Audit Committee has been nominated to undertake the scrutiny role for Treasury Management, it needs to carry this out in accordance with the Treasury Management Code but ensure not to include any executive and decision-making roles.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - support effective internal audit arrangements
 - promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management and control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.
- CIPFA has endorsed the recommendations of the Redmond Review that the external audit annual report should be submitted to full council by the external auditor, although accompanied by a report from the Audit Committee setting out the proposed response to the report.

2.4 Audit committee membership

Audit Committee members should be:

- Knowledgeable, trained to fulfill their role, objective, and have an inquiring and independent approach.
- Promoting good governance principles and identifying improvements that can help achieve the organisation's objectives.
- Willing to operate in an apolitical manner.
- Unbiased and treat auditors, the executive and management fairly.
- Constructively challenging the executive and senior managers when required.
- Having expertise and interest in the committee's work; although committee members' attitudes and willingness to have appropriate training are equally important.

Additionally, the committee should have a strong, independently minded chair, displaying a depth of knowledge, skills, and interest and able to:

- promote apolitical open discussion
- manage meetings effectively, encouraging a culture of continuous improvement and learning from all participants
- maintain the committee's focus on matters of greatest priority.

Where the committee is strictly advisory and not subject to other requirements, full council can vote to waive the political balance requirement and specify other criteria to decide who should serve on the committee. The length of tenure will be influenced by the need to maintain political balance (if relevant), in addition to other factors. In principle, establishing continuity on the committee helps to make the best use of knowledge and experience, although some rotation is helpful to bring a new perspective. CIPFA suggests that two full terms on the committee is a reasonable maximum.

CIPFA detail that unless there is specific guidance or legislation in place relating to selecting the committee chair, authorities can determine their own approach. In some cases, it may be that it is specified that the position is occupied by an opposition member to try and emphasise independence and the apolitical nature of the committee. This may not be appropriate for all authorities – for example when there are few opposition members.

2.5 Engagement and outputs

To discharge its responsibilities effectively and enable it to address all its responsibilities detailed in its terms of reference, the committee should:

- meet regularly (at least four times a year), and have a clear policy on items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required

- have the right to call on any other officers or agencies of the authority as required
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the CIPFA position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public and the conclusions support the AGS.

2.6 Impact

- The Audit Committee's influence depends on both effectively performing its role and engaging with the leadership team and those charged with governance.
- The committee should consider its impact and identify areas for improvement.

3. SELF-ASSESSMENT OF GOOD PRACTICE FOR AUDIT COMMITTEES

- 3.1 Using the CIPFA self-assessment tool, a self-assessment was conducted by Internal Audit in January 2023 against the CIPFA guidance (Appendix 2). The overall conclusion from this is that there is partial compliance with the CIPFA guidance with moderate improvement required.
- 3.3 One of the outcomes from the initial self-assessment review conducted was to propose that the A&G Committee's terms of reference be updated to those suggested by CIPFA for local authorities (see Appendix 1 for the suggested revised terms of reference). Policy Committee has subsequently endorsed that a recommendation be made to October's Council meeting for these to be formally approved and adopted.
- 3.4 Whilst it is noted that, generally, the current committee terms of reference address the core areas identified in CIPFA's Position Statement, they would benefit from some updating to reflect increased emphasis in some areas and also the inclusion of some additional areas.
- 3.5 Areas for increased emphasis include organisational risk profile, value for money and an oversight role on fraud and anti-corruption and a broadened reference to internal controls beyond consideration annually as part of the Annual Governance Statement (AGS) and financial management beyond focusing on the financial statements.
- 3.6 Areas for specific inclusion in the terms of reference include review of governance and assurance arrangements for significant partnerships/collaborations, considering the assurance framework and whether it adequately addresses the Council's risks and priorities, detailing that both the Chief Auditor and External Audit have unrestricted access to the committee chair and an opportunity to meet privately with the committee and also a number of areas relating to internal audit, including approval of their charter, confirming their independence, inquiring about scope limitations on their work, reviewing and approving any safeguards to limit impairments for any additional roles taken on by the Chief Auditor and receiving their external quality assessment report.
- 3.7 It should be noted that whilst various areas are either not detailed or not specifically detailed within the current terms of reference, this does not necessarily mean that they are not already undertaken by the committee (for example A&G Committee annually reviews and approves the internal audit charter and internal and external audit has the opportunity to meet privately with the committee and its chair).

4. Contribution to Strategic Aims

- 4.1 An effective audit committee enables the Council to meet its statutory responsibilities in relation to governance and internal control arrangements, financial management, financial reporting and internal audit, which are fundamental to the delivery of the Council's strategic aims, vision and Corporate Plan priorities.
- 4.2 The Council's new Corporate Plan has established three themes for the years 2022/25. These themes are:
- Healthy Environment
 - Thriving Communities
 - Inclusive Economy
- 4.3 These themes are underpinned by "Our Foundations" explaining the ways we work at the Council:
- People first
 - Digital transformation
 - Building self-reliance
 - Getting the best value
 - Collaborating with others
- 4.4 Full details of the Council's Corporate Plan and the projects which will deliver these priorities are published on the [Council's website](#). These priorities and the Corporate Plan demonstrate how the Council meets its legal obligation to be efficient, effective and economical.

5. Environmental and Climate Implications

- 5.1 The Council declared a Climate Emergency at its meeting on 26 February 2019 (Minute 48 refers).
- 5.2 There are no environmental or climate implications arising from the report.

6. Community Engagement

- 6.1 N/A

7. Equality Implications

- 7.1 No equalities impact implications have been identified as arising from this report.

8. Other Relevant Considerations

- 8.1 None

9. Legal Implications

- 9.1 The CIPFA Position Statement on Audit Committees in Local Authorities 2022 is guidance; however, it is noted that "CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements."

10 Financial Implications

- 10.1 Some likely indirectly as a result of the self-assessment - for example, training. In addition, remuneration might be necessary for appointed independent members.

11 Timetable for Implementation

- 11.1 The revised terms of reference for the Audit and Governance Committee, together with the recommendations that the external audit annual report should be submitted to full council by the external auditor and that the Audit & Governance Committee reports annually on how it has complied with the CIPFA position statement, discharged its responsibilities, and includes an assessment of its performance will be received at the October 2023 Council meeting and, subject to their approval, will then be implemented with immediate effect. The latter two reports will be timetabled in the relevant Council meetings in line with the external audit annual report and Annual Governance Statement timetables respectively.

12 Background Papers

- 12.1 Audit Committees: Practical Guidance For Local Authorities And Police (2022 edition)
<https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

Appendices

The following documents are appended:

- Appendix 1 – proposed revised Audit & Governance Committee’s terms of reference
- Appendix 2 - Self-assessment of good practice against the CIPFA Practical Guidance for Local Authorities on Audit Committees