



TO: Audit & Governance Committee

FROM: Director of Finance

DATE: 28 June 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

1. PURPOSE

- 1.1 The purpose of this report is present the Chartered Institute of Public Finance & Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police 2022 to the Committee for review and comment.

2. RECOMMENDATIONS

- 2.1 The Committee is recommended:
- a) to note the contents of this report; and
 - b) consider the results of the attached assessment of the current Committee arrangements against the new Position Statement and consider if any actions are required to increase the effectiveness of this Committee.

3. BACKGROUND

- 3.1 CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022 ('the Position Statement') sets out CIPFA's view of the role and functions of an audit committee. It replaces the previous 2018 Position Statement and includes all principal local authorities in the UK.
- 3.2 The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt and has been prepared in consultation with sector representatives. CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit. The results of the assessment of the current arrangements in place for the Audit & Governance Committee against the principles and practices set out in the new Statement are detailed in the attached appendix.

4. KEY ISSUES AND RISKS

4.1 The 2022 Position Statement sets out the purpose, model, core functions and membership of an audit committee. Key details for each of these areas are set out under each heading below. The Statement defines the purpose of Audit Committees as follows:

- 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.
- 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.
- 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.

Independent and effective model

4.2 The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It should be an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

4.3 The Statement notes that local authority audit committees should 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

Core functions

4.4 The Position Statement notes that the core functions of an audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained. Specific responsibilities identified include:

- Maintenance of governance, risk and control arrangements.
 - Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
 - Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
 - Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.
- Financial and governance reporting.
 - Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.

- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.
- 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.
 - Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or 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.

Membership

- 4.5 The Statement sets out guidance regarding the membership of an audit committee. The members need to be of high calibre in order to provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.
- 4.6 However, it notes that while expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance. The overall the overall knowledge and expertise of the existing members should be considered when appointing co-opted independent members.
- 4.7 Good audit committees are characterised by:
- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
 - A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
 - A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
 - Promoting apolitical open discussion.
 - Managing meetings to cover all business and encouraging a candid approach from all participants.
 - Maintaining the focus of the committee on matters of greatest priority.
 - Willingness to operate in an apolitical manner.
 - Unbiased attitudes – treating auditors, the executive and management fairly.
 - The ability to challenge the executive and senior managers when required.
 - Knowledge, expertise and interest in the work of the committee.

Engagement and outputs

- 4.8 The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs. To discharge its responsibilities effectively, the committee should:

- Meet regularly, at least four times a year, and have a clear policy on those 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; police audit committees should recognise the independence of the chief constable in relation to operational policing matters.
- Support transparency, reporting regularly on its work to those charged with governance.
- Report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

5. POLICY IMPLICATIONS

- 5.1 The Council must ensure that it has an appropriate governance framework, including an effective audit committee, in place to comply with legislative requirements and good practice. Failure to do this could have potentially significant consequences for the Authority in relation to external assessments, public confidence and risk of legal challenge.
- 5.2 The Audit and Governance Committee is an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. A review of current best practice will help the Committee to fulfil its responsibilities and ensure the relevant Terms of Reference remains appropriate.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no direct financial implications arising from this report.

7. LEGAL IMPLICATIONS

- 7.1 The Accounts and Audit (England) Regulations 2015 state that the Council must ensure that it has a sound system of internal control that:
- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - ensures that the financial and operational management of the authority is effective; and
 - includes effective arrangements for the management of risk. The Audit & Governance Committee has been designated as the committee charged with ensuring the on-going effectiveness of the Council's overall governance arrangements.

8. RESOURCE IMPLICATIONS

8.1 There are no resources implications arising from the contents of this report.

9. EQUALITY AND HEALTH IMPLICATIONS

9.1 There are no equality or health implications arising from the contents of this report.

10. CONSULTATIONS

10.1 None arising from the contents of this report.

11. STATEMENT OF COMPLIANCE

11.1 The recommendations in this report are made further to advice from the Monitoring Officer. The Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance..

VERSION:	1
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DATE:	15 June 2022
BACKGROUND PAPERS:	CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022