

25 September 2023

Review of the Effectiveness of the Audit Committee

Ward(s): All

Portfolios: All

Purpose: Review

1. Aim

- 1.1 To provide Audit Committee with the completed effectiveness checklist for their consideration and agreement prior to reporting the outcome in the Committee's Annual Report to Council on its activities during 2022/23.

2. Summary

- 2.1 The CIPFA Position Statement (the "Statement") on Audit Committees sets out the key principles that CIPFA recommends for Audit Committees operating in local government. This Statement is supported by further guidance. The Statement and guidance were updated in 2022. An assessment against the 'Good Practice Checklist' has been undertaken and is included in this report for the Committee's consideration and some minor improvement actions identified.

3. Recommendations

- 3.1 That Audit Committee consider the attached self-assessment (Appendix 1) against the 'Good Practice Checklist' undertaken by audit Committee members on 11 September and review the actions arising, amending if appropriate.
- 3.2 That subject to any amendments arising from 3.1 above, a summary of the outcome will be included within the Committee's Annual Report to full Council on its activities during 2022/23.

4. Report detail – know

Background

- 4.1 The CIPFA Position Statement covers:

- Purpose of an Audit Committee;
- Establishing an independent and effective model;
- Core functions, including;

- Maintenance of governance, risk, and control arrangements,
- Financial and governance reporting,
- Establishing appropriate and effective arrangements for audit and assurance,
- The characteristics of a good Audit Committee and membership;
- Engagement and outputs – effectively discharging its responsibilities; and,
- Impact – evaluating impact and any areas for improvement.

4.2 The Statement provides greater prominence to the Annual Report to full Council, including it for the first time in this updated version, including that the Committee should *“report annually on how the Committee has complied with the Statement, discharged its responsibilities, and include an assessment of its performance.”*

4.3 The Statement is supported by Audit Committee: Practical Guidance for Local Authorities and Police document (October 2022 edition) - The Audit Committee Member in a Local Authority is a 77-page guidance document intended to support the establishment, operation, and effectiveness of Audit Committees. It is intended for members of Audit Committees to help them to understand the purpose of the Committee, and its function and their responsibilities as members of the Committee. It covers:

- Core functions of the Committee;
- The administrative and operational arrangements of the Committee;
- Membership and effectiveness of the Committee, including training and a Knowledge and Skills Framework to support the appointment, training and development of Audit Committee members and resources to enable self-evaluation and improvement planning and inform the effectiveness review of the Committee.

4.4 The document provides further detail on each of the above and guidance on conducting the effectiveness review and contents of the Audit Committee’s Annual Report to full Council. The document is supplemented by a further 61-page document, ‘Guiding the Audit Committee’, which is aimed at those who support Audit Committees, helping them to ensure that its operations are in accordance with appropriate legislation and good practice.

4.5 The effectiveness review should cover:

- An assessment of whether the Committee is operating in accordance with the practices recommended in the Position Statement and complies with legislation (if applicable);
- How the Committee has fulfilled its terms of reference, including the core functions of the Committee;
- The operation of the Committee, including the support and training provided and how members have developed their knowledge and experience;
- The Committee’s effectiveness in terms of impact on the quality of governance, risk management and internal control, together with satisfactory audit arrangements;
- Further, the Chair of the Committee should ideally coordinate the effectiveness review and involve all the Committee members. Their views on the operation of

the Committee, level of support and knowledge and skills is vital. It is also helpful to get feedback on the operation of the Committee from those who rely on its work, the leadership team, and those who interact regularly with the Committee (such as the Head of Internal Audit, Chief Finance Officer and External Auditor).

- 4.6 CIPFA advocates regular reviews of effectiveness, and the Statement recommends that the results of the Committee's evaluation of its effectiveness should be reported in the Chair's Annual Report to Council. At its meeting on 26 June, Audit Committee agreed that a self-assessment be coordinated by Officers, in consultation with the Chair of the Committee, using the CIPFA checklist, with the outcome being brought back for members' consideration to allow input of the outcomes into the Chair's Annual Report. Annual reviews would then be incorporated into the Committee's work programme for each year.
- 4.7 A copy of the Practical Guidance has been made available to all members of the Committee and the revised guidance has also been used to review the terms of reference (TOR), work programme and training plan for the Committee. The updated TOR was reported to Committee in June and approved by full Council on 10 July.
- 4.8 A workshop was held with Audit Committee members on 11 September and the CIPFA best practice checklist was completed. 4 members attended the workshop, including the independent Chair, and Vice-Chair. 1 member sent apologies and 2 others did not attend. Input was also sought and provided by a number of senior officers who regularly support the Committee in its work (namely the S151 Officer and two Heads of Finance - Strategic Finance and Assurance, Technical and Transactional), and External Audit and Internal Audit were requested to input appropriate feedback.
- 4.9 The combined outcome is attached at Appendix 2. In summary, the Committee is substantially compliant, with some minor areas of improvement as set out. Members felt that 3 of the 40 questions (and sub questions) could not be effectively scored, the reasons for which are set out in the comments within Appendix 2. The self-assessment will be further developed and utilised to support the overall effectiveness review of the audit committee within the internal control framework and reported in future Annual Governance Statements.
- 4.10 As well as the CIPFA self-assessment tool covering the core aspects of the Statement, a review of the Committee's work against its approved work programme was also undertaken. This has confirmed that the Committee has fulfilled its terms of reference, including the core functions of the Committee.

5. Financial information

- 5.1 There are no direct financial implications associated with this report. Any costs arising from training or support identified will be accommodated from existing budgets.

6. Reducing Inequalities

- 6.1 There are no equality implications directly related to this report.

7. Decide

- 7.1 Audit Committee are asked to comment on the outcome of the effectiveness review and agree on the improvement actions.

8. Respond

- 8.1 The outcome of the review will be summarised and included within in the Committee's Annual Report to Council in accordance with the guidance, once approved.

9. Review

- 9.1 The evaluation of effectiveness will be built into future work programmes, with any actions arising from the outcome of the review being reported back to the Committee to monitor progress and contained within future Annual Reports to full Council.

Background paper

Chartered Institute of Public Finance & Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police 2022

CIPFA Audit Committees: Practical Guidance for Local Authorities and Police – The Audit Committee Member in a Local Authority

Guiding the Audit Committee - Supplement to Audit Committee Member in a Local Authority guidance (CIPFA)

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Self-assessment of Good Practice

Appendix 1

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and supporting guidance. Where an audit committee has a high degree of performance against the good practice principles, it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

Where the committee does not fully comply with an element, three options are available to allow distinctions between aspects that require significant improvement and those only requiring minor changes.

Good Practice Questions		Does not comply	Partially complies and extent of improvement needed			Fully complies	Improvement Actions	Comments
		Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement		
<u>Audit Committee Purpose and Governance</u>								
1	Does the authority have a dedicated audit committee that is not combined with other functions (e.g. standards, ethics, scrutiny)?					★		Fully complies
2	directly to the governing body (full council)?					★		Fully complies.
3	Has the committee maintained its advisory role by not taking on any decision-making powers?					★		Fully complies.
4	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?					★		Fully complies.
5	Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?				★		This will be tested to ensure understanding is complete. A review of member and officer training and induction will be completed to ensure sufficient coverage of role and purpose.	
6	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?					★		Fully complies.

Good Practice Questions		Does not comply	Partially complies and extent of improvement needed			Fully complies	Improvement Actions	Comments	
		Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement			
7		Does the governing body hold the audit committee to account for its performance at least annually?					★	Fully complies.	
8		Does the committee publish an annual report in accordance with the 2022 guidance, including:					★	The 2023 Annual Report will satisfy this requirement.	
		- Compliance with the CIPFA Position Statement 2022					★		
		- Results of the annual evaluation, development work undertaken and planned improvements					★		
		- How it has fulfilled its terms of reference and the key issues escalated in the year?					★		
<u>Functions of the Committee</u>									
9		Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?							The Committee's terms of reference (TOR) was reviewed alongside the revised CIPFA Position Statement and the updated TOR approved by Council.
		Governance arrangements					★		
		Risk management arrangements					★		
		Internal control arrangements, including:					★		
		- Financial management							
		- Value for money							
		- Ethics and standards							
		- Counter fraud and corruption							

Good Practice Questions		Does not comply	Partially complies and extent of improvement needed			Fully complies	Improvement Actions	Comments
			Major improvement	Significant improvement	Moderate improvement			
	Annual governance statement					★		
	Financial reporting					★		
	Assurance framework					★		
	Internal audit					★		
	External audit					★		
10	Over the last year, has adequate consideration been given to all core areas?					★		The work programme covered all core areas.
11	Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?					★		Fully complies.
12	Has the committee met privately with the external auditors and head of internal audit in the last year?					★		Meetings have been held with external audit and in previous years, with internal audit. There is provision within the agenda for a private meeting.
Membership and Support								
13	Has the committee been established in accordance with the 2022 guidance as follows?							
	- Separation from executive					★		Fully complies.

Good Practice Questions		Does not comply	Partially complies and extent of improvement needed			Fully complies	Improvement Actions	Comments
			Major improvement	Significant improvement	Moderate improvement			
	- A size that is not unwieldy and avoids use of substitutes					★		Fully complies.
	- Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation					★		Fully complies.
14	Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?					N/A		processes and constitutional requirements concerning balance that this is not fully realisable and is therefore not scored. Skills and knowledge is discussed and training arranged as per the approved training plan and with the agreement of committee members.
15	Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?					N/A		Formal use of the assessment within the CIPFA Guidance is not felt to be the most relevant mechanism to use and is therefore not scored. Skills and knowledge development is a priority of the Committee and is discussed and training arranged as per the approved training plan and with the agreement of committee members. Individual 121 sessions are held with members to assess and agree any further training and support needs.
16	Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?					★	An agreed training plan is in place. A feedback mechanism will be implemented to support continuous improvement.	
17	Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?					N/A		As per 14&15, not scored. Training is a priority as set out above.

Good Practice Questions		Does not comply	Partially complies and extent of improvement needed			Fully complies	Improvement Actions	Comments
			Major improvement	Significant improvement	Moderate improvement			
18	Is adequate secretariat and administrative support provided to the committee?					★		Fully complies.
19	working relations with key people and organisations, including external audit, internal audit and the CFO?					★		Fully complies.
<u>Effectiveness of the Committee</u>								
20	Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?					★		provided from interviewees and the CPC process. Audit contributed to the self assessment process. The AGS review will be used to assess this in future.
21	Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?					★		this along with feedback from contributors to the self assessment process.
22	Are meetings effective with a good level of discussion and engagement from all the members?				★		Some minor improvement to ensure that discussions do not stray into scrutiny, however this is managed via the Chair and continued support and training as appropriate.	
23	Has the committee maintained a non-political approach to discussions throughout?					★		Fully complies.
24	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?					★		Fully complies. Officers attend meetings to cover these areas.

Good Practice Questions		Does not comply	Partially complies and extent of improvement needed			Fully complies	Improvement Actions	Comments
			Major improvement	Significant improvement	Moderate improvement			
25	Does the committee make recommendations for the improvement of governance, risk and control arrangements?					★		Fully complies. Robust evidence is in place of recommendations from audit committee across its areas of core responsibility.
26	Do audit committee recommendations have traction with those in leadership roles?					★		Fully complies. Robust evidence is in place of recommendations from audit committee across its areas of core responsibility and from tracking chart.
27	Has the committee evaluated whether and how it is adding value to the organisation?				★		Formal evaluation has not taken place. This will be undertaken as part of the annual AGS.	Positive feedback has been received from CPC along with feedback from contributors to the self assessment process.
28	Does the committee have an action plan to improve any areas of weakness?				★		The outcome of this checklist forms that plan.	An engagement and participation plan was agreed by the committee to address improvements including training, reporting to the committee. The majority have been implemented.
29	Has this assessment been undertaken collaboratively with the audit committee members?				★		The workshop format will be built on for future assessments.	A workshop approach was taken to do this, attended by 4 out of 7 members of the Committee (including the independent Chair). Senior officers contributed to the self assessment along with audit. The draft assessment will be considered by audit committee members at its September 2023 meeting.