

**11 Aril 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 an update on the arrangements for undertaking a review of the 'effectiveness of the Audit Committee' as recommended by CIPFA for the Committee's consideration.

**2. Summary**

- 2.1 The CIPFA Position Statement (the "Statement") (Appendix 1) 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.

**3. Recommendations**

- 3.1 Audit Committee are requested to note the revised guidance and agree the timing and approach to undertaking the effectiveness review, as set out in 4.9.

**4. Report detail – know**

***Background***

- 4.1 The CIPFA Position Statement (Attached at Appendix 1) covers:

- Purpose of Audit Committee;
- Establishing an independent and effective model;
- Core function, 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 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 Committees annual report to 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 CIPFA advocates regular reviews of effectiveness. Further the Statement recommends that the results of the Committee’s evaluation of its effectiveness should be reported in the annual report. The previous assessment was undertaken in 2020 and reported to Audit Committee at its meeting in November 2020, therefore it is timely, with the publication of the new guidance, to undertake a review of the effectiveness of the Committee.
- 4.6 The 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). To support this, Appendix E (Appendix 2) of the guidance publication is a self-assessment tool covering the core aspects;
  - How the Committee has fulfilled its terms of reference, including the core functions of the Committee. The self-assessment will also support this, together with a review of the year’s agendas;
  - The operation of the Committee, including the support and training provided and how members have developed their knowledge and experience. The knowledge and skills framework provided will be useful in helping to identify training needs;
  - The Committee’s effectiveness in terms of impact on the quality of governance, risk management and internal control, together with satisfactory audit arrangements. Appendix F of the guidance encourages the Committee to

consider how they have made a positive impact on a range of criteria, including governance, risk management, internal control and audit and assurance. As the Committee is an advisory committee, it is not directly responsible for those aspects, but if it is effective, it should be possible to identify how the Committee has contributed;

- 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).

4.7 Some Audit committees have brought in an independent facilitator to support the self-assessment, to help ensure wide engagement and build consensus, but this is not deemed as essential. The review will have greatest value if it is participative and results in an agreed outcome and action plan.

4.8 A copy of the Practical Guidance will be made available to all members of the Committee for their reference and it is proposed, subject to Audit Committee agreement to use the revised guidance to support the following for the new municipal year:

- Review the terms of reference of the Committee;
- Review the work programme;
- Review training requirements and a training plan for members;

4.9 In respect of the effectiveness review of the Committee, timing of this review may depend on changes in Committee membership. Ideally, a review would be undertaken once members have experienced a full Committee cycle, however this is not possible for 2022/23 with a number of recent changes to membership. However, it is now timely to undertake a review in line with the updated guidance, therefore it is suggested that a self-assessment is coordinated by Officers, in consultation with the Chair of the Committee, using the checklist at Appendix 2, with the draft outcome being brought back for members' consideration in June. This would allow input of the outcomes into the annual governance statement and annual report. A further review could then take place during the latter part of 2023/24, potentially including some external support. Members may wish to consider other approaches.

## **5. Financial information**

5.1 There are no direct financial implications associated with this report. The remit of the Committee includes review and approval of the council's accounting policies, statement of accounts and receipt of the External Auditors report on the council's value for money arrangements as recommended by CIPFA and has a role in helping to protect public monies intended to be used on delivering the council's corporate objectives.

## **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 timing and approach to undertaking the review of the effectiveness of the Audit Committee as set out in this report.

## **8. Respond**

- 8.1 Following the decision, officers will take forward the agreed approach and provide support as necessary.

## **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 the annual report to full Council..

## **Background paper**

Review of effectiveness of Audit Committee – 23 November 2020

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

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

Audit Committee Update Issue 37 January 2023 – Helping Audit Committee to be Effective (CIPFA)

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