

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 25 JULY 2018

Title of report	BRIEFING PAPER : CIPFA'S 2018 EDITION OF AUDIT COMMITTEES: PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE
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Purpose of report	To inform members of the publication of CIPFA's 2018 edition of Audit Committees: <i>Practical Guidance for Local Authorities and Police</i> and to consider best practice recommendations within the guidance.
Reason for Decision	To review the effectiveness of the Audit & Governance Committee and identify training needs for members in fulfilling their roles.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None.
Link to relevant CAT	None.
Risk Management	None.
Equalities Impact Screening	Not Applicable.
Human Rights	None.
Transformational Government	Not Applicable
Consultees	None.
Background papers	<i>Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA 2018)</i>

Recommendations	<p>THAT THE AUDIT AND GOVERNANCE COMMITTEE</p> <p>1. NOTES THE REPORT</p> <p>2. ESTABLISH A 3 MEMBER WORKING GROUP FROM THE AUDIT AND GOVERNANCE COMMITTEE TO WORK WITH THE AUDIT MANAGER AND THE HEAD OF LEGAL AND COMMERCIAL SERVICES TO UNDERTAKE A SELF ASSESSMENT AND TRAINING NEEDS ANALYSIS AND REPORT BACK TO THE MEETING OF AUDIT AND GOVERNANCE COMMITTEE ON 5 DECEMBER 2018.</p>
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1. INTRODUCTION

- 1.1 In May 2018, the Chartered Institute of Public Finance & Accountancy (CIPFA) published a revised and updated edition of the document *Audit Committees: Practical Guidance for Local Authorities and Police*.
- 1.2 The previous version of the guidance was issued in 2013. The revised version includes updates to the core functions of the committee and pulls together in one document all relevant changes in legislation and governance frameworks introduced since 2013. Any changes which have impacted the work of the Audit & Governance Committee or have required changes to the way that information is presented have already been addressed by the Council.
- 1.3 The guidance continues to include a strong focus on the factors that support improvement, including knowledge and skills that audit committee members require and a focus on where the audit committee adds value. It also provides practical support in evaluating the existing committee and planning any improvements identified.

2. GUIDANCE SUMMARY

- 2.1 This edition of the guidance updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. This includes updates to regulations and statutory guidance. The updates to the Public Sector Internal Audit Standards in 2016 & 2017, and the Delivering Good Governance in Local Government: Framework (CIPFA/Solace 2016) are also considered within the guidance for their impact on the work of the audit committee
- 2.2 CIPFA's 2018 Position Statement on the role and functions of an audit committee outlines the core and potential other functions of an audit committee and emphasises those areas which promote the overall effectiveness of the audit committee.
- 2.3 A summarised version of the guidance, which includes the Position Statement and CIPFA evaluation tools, has been circulated to members separately.

3. MAIN CHANGES TO THE 2013 GUIDANCE.

- 3.1 The following sections of the Guidance have been updated to reflect frameworks/codes of practice which have been introduced since the previous guidance was issued. Details of how these have been applied at NWLDC are provided in italics for information.

3.1.1 **Good Governance and the Annual Governance Statement.**

This section of the Guidance now includes reference to the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) which sets the standard for governance in UK local government bodies

The Council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' 2016 and sets out how it complies within the Annual Governance Statement.

3.1.2 **Internal Audit**

This section of the Guidance now makes reference to the following

All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, the Accounts and Audit (Wales) Regulations 2014, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 must make provision for internal audit in accordance with the PSIAS and LGAN.

The Internal Audit function reports compliance with the PSIAS within quarterly progress reports to Audit & Governance committee.

3.1.3 **Countering Fraud and Corruption**

This section of the Guidance now refers explicitly to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014) which sets out the counter fraud standards for public sector organisations. The Guidance also refers to the CIPFA Fraud and Corruption Tracker (CFACT) and Integrity Matters (HMIC, 2015)

A review of Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption was undertaken by internal audit as part of the 2016/17 audit plan and recommendations made where improvements were required.

3.1.4 **External Audit**

This section of the Guidance has been expanded significantly to reflect arrangements regarding External Audit which were introduced under the Local Audit and Accountability Act 2014 and includes the following:

- Appointment of auditors
- Monitoring the external audit process
- Supporting independence
- Understanding the potential threats to external independence
- Receiving and considering the work of external audit
- Supporting the quality and effectiveness of the external audit process

In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act.

At the meeting of full council on 23rd February 2017 it was approved that the council would opt in to the PSAA Framework for Appointing External Auditors. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

The Audit and Governance Committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation.

3.1.5 **Governance and Ethical Values**

This section of the Guidance has been updated to include reference to the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) Framework and in particular regarding "Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law"

As the Audit Committee has a key role in supporting good governance, support for the ethical framework of the authority is also important.

The Council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' 2016 and sets out how it complies within the Annual Governance Statement.

4. **EFFECTIVE AUDIT COMMITTEES**

4.1 The Guidance also lists nine principal areas where the committee can influence and add value:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

4.2 The guidance suggests that a good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential

requirements for delivering effectiveness. Whilst 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 it can be difficult to quantify.

The self-assessment evaluation tools included at Appendix D & E of the Guidance can assist in supporting an assessment against recommended practice to inform and support the audit committee.

5. IDENTIFYING TRAINING NEEDS AND NEXT STEPS.

- 5.1 The Guidance refers to the range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No individual committee member would be expected to be expert in all areas, however, there are some core areas of knowledge that committee members should be able to demonstrate.

It is recommended that regular briefings or training are undertaken to assist committee members in keeping up to date to extend their knowledge.

- 5.2 Appendix C of the Guidance sets out a knowledge and skills framework for audit committee members and the committee chair. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee. It can also be used when recruiting independent members. This has been circulated to members separately.

- 5.3 It is recommended that the knowledge and skills framework is adapted to undertake a training needs analysis for members of the Audit & Governance Committee. It is suggested that a small working group comprising of three members, working with the Audit Manager and the Head of Legal and Commercial Services, lead this work to conduct both an assessment of the committee's effectiveness, using the assessment tools within the CIPFA guidance and a training needs analysis.

It is suggested that the working group meets initially to collectively agree the methodology to undertake a self-assessment of the committee's effectiveness, which may include obtaining the views of key officers and other members. In addition a knowledge and skills assessment based on the framework at Appendix C of the guidance should be completed by individual members of the Committee to assist in identifying where further training may be required. A subsequent meeting should then be held to review the results of both the effectiveness self-assessment and the knowledge and skills assessment.

It is suggested that the findings of the exercise be reported back to Audit & Governance Committee in December 2018. Outcomes will then feed into the development of a member induction plan for 2019 as well as identifying training needs for existing members.

- 5.4 There is also an external training event being held in London on 20th September 2018 should any members of the Audit and Governance Committee wish to attend. The event will be facilitated by CIPFA and offers the opportunity to develop the knowledge and skills of audit committee members through briefings and in-depth guidance.