

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY 26
APRIL 2023



Title of Report	CIPFA POSITION STATEMENT: AUDIT COMMITTEES IN LOCAL AUTHORITIES AND POLICE 2022	
Presented by	Kerry Beavis Audit Manager	
Background Papers	Position Statement: Audit Committees in Local Authorities and Police 2022 (appendix A) Audit committees: practical guidance for local authorities and police (to be circulated)	Public Report: Yes
Purpose of Report	To inform members of the publication of CIPFA's 2022 edition of Audit Committees: Practical Guidance for Local Authorities and Police and to consider best practice recommendations within the guidance	
Recommendations	THAT THE AUDIT AND GOVERNANCE COMMITTEE 1. NOTES THE REPORT 2. AGREES TO ESTABLISH A CROSS PARTY MEMBER WORKING GROUP, TO BE DRAWN FROM THE AUDIT AND GOVERNANCE COMMITTEE APPOINTED AT COUNCIL ON 23 MAY 2023, TO WORK WITH THE AUDIT MANAGER AND THE HEAD OF LEGAL AND SUPPORT SERVICES TO UNDERTAKE A SELF ASSESSMENT AND TRAINING NEEDS ANALYSIS AND REPORT BACK TO THE MEETING OF AUDIT AND GOVERNANCE COMMITTEE AT THE JULY MEETING. 3. AGREE THE PROCESS FOR THE RECRUITMENT OF INDEPENDENT MEMBERS TO THE COMMITTEE.	

1. INTRODUCTION

- 1.1 In May 2022, the Chartered Institute of Public Finance & Accountancy (CIPFA) published a revised and updated edition of the document *Position Statement: Audit Committees in Local Authorities and Police 2022*. In addition to the statement CIPFA also released guidance documentation in October 2022 – *Audit committees: practical guidance for local authorities and police*.
- 1.2 The previous version of the guidance was issued in 2018. The revised version builds on the previous versions and includes updates to the core functions and membership of the committee. Any changes that have impacted the Constitution have been included in the updated Constitution which has been presented to 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 statement and guidance explicitly details the core functions of the audit committee in relation to governance, risk management, internal control and audit.
- 2.2 CIPFA's 2022 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 The updated Position Statement is attached at Appendix A, the guidance will be circulated separately.

3. MAIN CHANGES TO THE 2022 GUIDANCE.

- 3.1 The following sections of the position statement have been updated to reflect good practice and ensure the effectiveness of the audit committee
 - **Independent & effective model** – the committee should be independent of both the executive and the scrutiny functions.
 - **Core Functions** – responsibilities for the specific areas now provide further detail to ensure good governance and accountability arrangements are in place.
 - **Audit committee membership**
 - ❖ The appointment of co-opted independent members on the committee
 - ❖ A membership that is trained and has knowledge, expertise, and interest in the work of the committee.

- **Engagement and outputs** – the committee is required to report annually on how it has complied with the position statement, discharged its responsibilities, and include an assessment of its performance.
- **Impact** - The committee should evaluate its impact and identify areas for improvement

4 EFFECTIVE AUDIT COMMITTEES

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

- aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements
- promoting the principles of good governance and how they are applied during decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements to govern risk and for effective arrangements to manage risk
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively across the authority
- reinforcing the objectivity, importance and independence of both internal and external audit and supporting the effectiveness of the audit functions
- 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 the risks of fraud and corruption
- promoting measures to improve transparency, 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 E & F of the Guidance, will enable an action plan to be drafted and delivered to support the committee in meeting recommended practice.

5 IDENTIFYING TRAINING NEEDS AND NEXT STEPS

- 5.1 The Statement and Guidance refer 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. This will be used when recruiting independent members. This will be circulated to members separately.

It is recommended that the knowledge and skills framework is utilised to undertake a training needs analysis for members of the Audit & Governance Committee. It is suggested that a small cross party working group be appointed to, work with the Audit Manager and the Head of Legal and Support Services and 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.

- 5.3 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.
- 5.4 It is suggested that the findings of the exercise be reported back to Audit & Governance Committee in July 2023. Outcomes will then identify knowledge gaps and assist with the requirements of the Job Description and Person Specification of the independent members. Additionally, it will identify training needs for existing members.
- 5.5 It is suggested that the appointment of the independent members is carried out during August – September with an interviewing panel consisting of the Audit Committee chair, one other member of the audit committee and the Audit Manager.

6 PROPOSED TIMELINE OF ACTIONS

Action		Date
Appointment of Audit & Governance Committee		23 May 2023
Issue self-assessment documentation to audit committee		30 May 2023
Meeting of working group		Early June 2023
Report to Audit & Governance Committee to include <ul style="list-style-type: none"> Job Description and Person Specification of independent members Appointment Process Training needs feedback and action plan 		July 2023 A&G meeting
Independent members recruitment <ul style="list-style-type: none"> - Advertising - Interviewing 		August 2023 Early September 2023
Independent members first meeting at Audit & Governance committee.		October 2023

Policies and other considerations, as appropriate	
Council Priorities:	An effective internal audit service supports all council priorities.
Policy Considerations:	None.
Safeguarding:	None.
Equalities/Diversity:	An equality impact assessment will be carried out in regard to the appointment of independent members.
Customer Impact:	None.
Economic and Social Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	There are no specific risks associated with this report.
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CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It 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 2022 edition of the position statement replaces the 2018 edition.

The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.

CIPFA's Position Statement 2022: Audit committees in local authorities and police

Purpose of the audit committee

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. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

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

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is 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.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities 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

The core functions of the 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.

The specific responsibilities 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.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - support effective arrangements for internal audit
 - 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 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.

Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. 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.

Characteristics of audit committee membership:

- 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.

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 appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

Engagement and outputs

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.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.