

Name of meeting: CORPORATE GOVERNANCE & AUDIT COMMITTEE

Date: 17th JUNE 2022

Title of report: Government response to local audit framework: technical consultation

Purpose of report.

To advise members of the outcomes from a consultation on local audit matters

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	not applicable
The Decision - Is it eligible for call in by Scrutiny?	not applicable
Date signed off by Strategic Director & name	
Is it also signed off by the Service Director for Finance IT and Transactional Services?	8/6/2022
Is it also signed off by the Service Director for Legal Governance and Commissioning Support?	8/6/2022
Cabinet member portfolio	not applicable

Electoral wards affected: All

Ward councillors consulted: None

Public or private: Public

Have you considered GDPR? Yes

1. Summary

- 1.1 The government response to consultation includes information about how the Audit Reporting & Governance Authority will operate in relation to local authority external auditing and indicates an intention to create a statutory obligation for local authorities to have an Audit Committee, including an independent member.

2. Information required to take a decision

- 2.1 There have been long standing concerns about the effectiveness of external audit, and its supervision by the Financial Reporting Council across all sectors of the economy. The government has previously indicated an intention to replace the Financial Reporting Council with a new body the Audit Reporting & Governance Authority. There have more specifically been concerns about the purpose, quality, delivery of external audit in the local authority, which led to the government

commissioning a review, published in September 2020 “The Independent Review into the oversight of local audit and the transparency of local authority financial reporting”. (Redmond) This made a number of recommendations.

- 2.2 The Ministry of Housing Communities & Local Government subsequently undertook a consultation- which attracted about 60 responses- and at the end of May 2022 published a report “Government response to local audit framework: technical consultation”.
- 2.3 This document addresses the responses to the consultation and sets out how the government intends the Audit Reporting & Governance Authority (ARGA) will operate in relation to local (authority) audits. This is to have a dedicated part of ARGA to look after local audit matters. There is no current intention that ARGA will directly commission local audit work and the -theoretical- freedom for local authorities to appoint their own auditor, or to choose an appointing person- Public Sector Audit Appointments (PSAA), which 99% of local authorities do- will remain, although they will have a degree of involvement/oversight.
- 2.4 A section of the response is titled “Enhancing the functions of local audit and the governance for responding to its findings”. The report notes that audit committees reinforce are a vital part of an organisation, supporting good governance, strong public financial management and effective internal audit and external audit. The Review noted that there was no statutory obligation on (most) local authorities to have an Audit Committee and recommended that local authorities should review their governance arrangements, including ‘the composition of their audit committees to include at least one independent member, suitably qualified’.
- 2.5 The consultation sought views on strengthened guidance on audit committees, a statutory obligation, and their role in external audit reporting. The responses are reported as broadly in favour, though with less support from local authority participants.
- 2.6 The government response has been to seek strengthened guidance from CIPFA- attached- which recommends the need for audit committees to be apolitical, ensuring membership has the right expertise, and reporting and publishing annually on committee effectiveness. Although the government accepts that this is not universally agreed, it considers it proportionate to ensure widespread take-up and with improved public accountability that local authorities should have an audit committee, with at least one independent member. This will be made a mandatory requirement, once Parliamentary time allows, although the government commits to consultation on how this should be implemented and encourages local authorities to establish their arrangements in line with CIPFA’s guidance, including appointing independent members in the intervening period.
- 2.7 There is no need for the Committee to do anything at his stage. The exact contents of any legislation and or regulations, statutory guidance, or guidance may require or suggest changes to the role of the committee and its membership at some point in the future.
- 2.8 It may however be prudent to compare the CIPFA statement with current practices and determine if the Committee wishes to amend any existing practices, or where

these changes require such approval to seek approval of Council to amend arrangements.

3. Implications for the Council

- 3.1 **Working with People** – None directly- but see 3.7
- 3.2 **Working with Partners** – None directly- but see 3.7
- 3.3 **Place Based Working** – None directly- but see 3.7
- 3.4 **Improving outcomes for children**– None directly- but see 3.7
- 3.5 **Climate change and air quality**- None directly- but see 3.7
- 3.6 **Impact on the finances of local residents**- None directly
- 3.7 **Other (e.g., Legal/Financial or Human Resources)**- A strong and effective audit committee should ensure effective corporate governance of the council. Many of these aspects will be about financial achievements and control, but there are many other aspects (as 3.1 to 3.5 above) where assurance and oversight will enhance the achievement of successful performance against all aspects of service provision.

4. Consultees and their opinions

- 4.1 None at this stage.

5. Next steps and timelines

- 5.1 The report, is for noting, but in the expectation of strengthened legislation it may be prudent to consider potential implications.

6. Officer recommendations and reasons

- 6.1 Members are asked to note the report and make any observations.

7. Cabinet portfolio holder's recommendations

Not applicable

8. Contact officer

Martin Dearnley, Head of Risk & Internal Audit (01484 221000 x73672)

9. Background Papers and History of Decisions

MoHCLG Consultation outcomes, CIPFA Position Statement

10. Service Director responsible

Finance; Legal , Commissioning & Governance

- 11 Appendix 1. CIPFA Position Statement on Audit Committees (attached)

Appendix 1.

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:
 - o oversee its independence, objectivity, performance and conformance to professional standards
 - o support effective arrangements for internal audit
 - o 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:
 - o promoting apolitical open discussion
 - o managing meetings to cover all business and encouraging a candid approach from all participants
 - o 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.