

Local Members' Interest
N/A

Audit and Standards Committee – 30 October 2018

CIPFA Guidance for Local Authority Audit Committees - Update

Recommendations

1. To note the latest CIPFA guidance on the function and operation of audit committees in local authorities contained within CIPFA's Publication – Practical Guidance for Local Authorities and Police 2018 Edition.
2. To review the Audit & Standard's Committee's current Terms of Reference following the publication of CIPFA's latest guidance.
3. To update the self-assessment exercise carried out in March 2018 to take account of the latest CIPFA guidance.

Report of the Director of Finance & Resources

Background Information

4. CIPFA's Publication - Practical Guidance for Local Authorities and Police 2018 Edition sets out its guidance on the function and operation of audit committees in local authorities and police bodies and represents CIPFA's view of best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales. This publication incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018) ("the position Statement") which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement.
5. Audit committees are a key component of an authority's governance framework and provide an independent and high level resource to support good governance and strong public financial management.
6. The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.
7. As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where they operate effectively, audit committees can add value by supporting improvement across a range of objectives including:
 - a. promoting the principle of good governance and their application to decision making;

- b. raising awareness of the need for sound internal control as well as contributing to the development of an effective control environment;
- c. supporting the establishment of arrangements for the governance and the management of risk;
- d. advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
- e. reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
- f. supporting the development of robust arrangements for ensuring value for money; and
- g. helping the authority to implement the values of ethical governance including effective arrangements for countering risks of fraud and corruption.

CIPFA's Publication - Practical Guidance for Local Authorities and Police 2018 – Key Changes

8. The revised and updated 2018 edition takes into account the development of audit committees since the original edition as well as incorporating the legislative changes that have affected the sector since 2013. It includes additional guidance and resources to support those acting as audit committee members in local authorities and those working with and supporting the committee's development. The key changes contained within CIPFA's latest guidance relate to the following areas:

- a. inclusion of an independent member on the Committee;
- b. additional guidance on how the Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
- c. additional guidance on how the committee can support independence of the external auditor and monitor the external audit process.

9. CIPFA's latest guidance has also made some additions to the suggested terms of reference for Audit Committees. These relate to the role of the Committee in relation to:

- a. reviewing the governance and assurance arrangements for significant partnerships or collaborations;
- b. considering any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit and to approve and periodically review safeguards to limit such impairments;
- c. providing free and unfettered access to the Audit Committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee;
- d. supporting the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate; and
- e. publishing an annual report on the work of the Committee.

The revisions made in the 2018 edition will be supported by a PowerPoint presentation to the Committee, attached as **Appendix A** to this report.

Self-Assessment of Good Practice & Evaluation of the Effectiveness of the Audit Committee

10. CIPFA states that a good standard of performance against recommended practice together with a knowledgeable and experienced membership are essential requirements for delivering effectiveness. To this effect, CIPFA has provided a high level review checklist that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. The latest guidance includes some additional good practice questions to the previous CIPFA checklist (2013 edition). This checklist can be used to undertake a regular self-assessment to support the planning of Audit Committee work programmes and training plans.
11. The self-assessment was carried out by members of the Committee in March 2018 against the key requirements of the previous CIPFA checklists (2013 edition). The following good practice questions have since been added to the checklist:
 - a. *Functions of the Committee* – does the Committee's terms of reference explicitly address the area of 'supporting the ethical framework'?
 - b. *Membership & Support* - Have independent members appointed to the Committee been recruited in an open and transparent way and approved by the Full Council as appropriate for the organisation?
 - c. *Effectiveness of the Committee* - (i) Are meetings effective with a good level of discussion and engagement from all the members? (ii) 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? (iii) Does the Committee make recommendations for the improvement of governance, risk and control and are these acted on? And (iv) Does the Committee publish an annual report to account for its performance and explain its work?

Equalities and Legal and Climate Change Implications

12. There are no specific Equalities, Legal or Climate Change implications presented by this report.

Resource and Value for Money Implications

13. There are no specific Resource or Value for Money implications presented by this report.

Risk Implications

14. There are no specific Risk Implications presented by this report.

Health Impact Assessment

15. There are no specific Health Impact Assessment implications presented by this report.

Contact Officer

Name and Job Title: Deborah Harris, Interim Chief Internal Auditor

Telephone No.: 01785 276406

E-Mail Address: deborah.harris@staffordshire.gov.uk

List of Background Documents:

Appendix A – Changes to the Practical Guidance for Local Authorities and Police
2018 Edition – Update Presentation

CIPFA – Practical Guidance for Local Authorities and Police 2018 Edition.
Constitution Extract - Audit & Standards Committee Terms of Reference.