

AUDIT COMMITTEE

25 SEPTEMBER 2019

REVIEW OF AUDIT COMMITTEE ARRANGEMENTS

Report of the Chief Internal Auditor

Purpose of report

The purpose of this report is to:

- (a) Present an initial assessment of current Audit Committee arrangements for Northumberland County Council with reference to 2018 good practice guidance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), for Audit Committee's consideration; and
- (b) Highlight those areas where development work should be focused during 2019/20 to ensure that our Audit Committee arrangements reflect all parts of CIPFA's latest publication (or that there is a clear rationale for departure from the guidance, if appropriate).

Recommendations

It is recommended that the Audit Committee:

- 1) **Considers and endorses the initial self assessment of our Audit Committee arrangements against the latest good practice guidance recommended by CIPFA, attached as Annex A;**
- 2) **Notes that CIPFA have published a revised Position Statement on Audit Committees in Local Authorities, attached as Annex B, and that some future changes are likely to be needed to the current Terms of Reference of Audit Committee as set out in the Constitution, to ensure that all aspects of CIPFA's latest guidance can be reflected;**
- 3) **Agrees that the Chief Internal Auditor works with the Chair of Audit Committee to prepare a 2019/20 plan of any actions which may be needed to ensure that our Audit Committee arrangements reflect, as far as practicable, CIPFA's latest guidance;**

- 4) Agrees that this report and the Action Plan recommended at 3) above will form the first phase of a 2019/20 review of the effectiveness of our Audit Committee, with a further report to be brought to Audit Committee in March 2020.**

Link to Corporate Plan

The work of the Audit Committee contributes to the overall achievement of the Council's Corporate Plan. In particular it supports the Council in its aim to be "efficient, open and work for everyone".

Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) periodically publishes good practice guidance covering the role, functions and operation of Audit Committees in Local Government. The latest such guidance ('Audit Committees – Practical Guidance for Local Authorities and Police') was published in 2018. The guidance is not mandatory but provides a helpful checklist against which local authorities can consider their own arrangements.
2. An initial assessment of our Audit Committee arrangements, against the good practice recommended by CIPFA, is included at **Annex A**. This self assessment demonstrates that:
 - (a) our Audit Committee arrangements already reflect a number of the good practice areas recommended by CIPFA. For example:
 - Independent co-opted members have been recruited to the Audit Committee
 - the Committee has developed good working relationships with key stakeholders
 - the role and purpose of the Audit Committee is understood and accepted across the Authority
 - Committee meetings are effective and demonstrate a good level of discussion and engagement from all members (co-opted and elected)
 - (b) there are a number of areas in which more development may be needed to ensure that the good practice recommended by CIPFA is reflected. This includes:
 - ensuring that the Terms of Reference for Audit Committee reflect CIPFA's latest Position Statement on Audit Committees in Local Government (this position Statement is included as **Annex B**)
 - working with Audit Committee members to assess whether members feel they have the required knowledge and skills necessary for their role on Audit Committee, and developing

a structured training programme if required to address any areas where more knowledge would be welcomed

3. To help ensure that all good practice arrangements become fully embedded, it is recommended that the outcomes of the analysis detailed above form the basis for development of an Action Plan for 2019/20, and that this work is progressed by the Chief Internal Auditor and Chair of Audit Committee with a further report brought before Audit Committee in March 2020. It is also proposed that this work forms the basis of a review of Audit Committee effectiveness 2019/20.

Implications

Policy	The Audit Committee contributes to the Council's governance framework, including the review of financial governance as appropriate. The role of Audit Committee is set out in the Council's Constitution and the Audit Committee's Terms of Reference.
Finance and value for money	Through its review of a range of audit, accounting and governance related items, the Audit Committee assesses the Council's use of financial resources and value for money. There are no financial implications arising from the recommendations set out in this report.
Legal	The Public Sector Internal Audit Standards, and related Local Government Application Note, presume that local authorities will have an Audit Committee undertaking the mission identified by CIPFA in its 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police".
Procurement	There are no procurement implications arising directly from this report.
Human Resources	There are no human resources implications arising directly from this report.
Property	There are no property implications arising directly from this report.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	An equalities impact assessment is not applicable to this report.

Risk Assessment	Any risks and opportunities identified will be managed in accordance with the Authority's established risk management processes.
Crime Disorder &	There are no crime and disorder issues directly arising from this report.
Customer Consideration	There are no direct customer considerations arising from this report.
Carbon reduction	There are no carbon reduction issues directly arising from this report.
Wards	All

Consultation

The analysis against CIPFA's good practice guidance, taken from the 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police", is included in this report for consultation with current members of Audit Committee.

Background Papers

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA, 2018 (P)
- (b) [Northumberland County Council Audit Committee Terms of Reference \(P\)](#)
- (c) [Northumberland County Council Corporate Plan 2018-21, 2018 \(P\)](#)

Reports sign off

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Portfolio Holder(s)	N/A

Author and Contact Details

Allison Mitchell, Chief Internal Auditor

0191 643 5720
[Allison.Mitchell@northtyneside.gov.uk](mailto>Allison.Mitchell@northtyneside.gov.uk)
[Allison.Mitchell@northumberland.gov.uk](mailto>Allison.Mitchell@northumberland.gov.uk)

Kevin McDonald, Group Assurance Manager
0191 643 5738
Kevin.McDonald@northtyneside.gov.uk
Kevin.McDonald@northumberland.gov.uk

Audit Committee Arrangements: Initial Self Assessment of Good Practice (September 2019)
 (taken from CIPFA, *Audit Committees, Practical Guidance for Local Authorities and Police*, published 2018)

CIPFA states that this checklist provides a high level review that incorporates the key principles set out in CIPFA's Position Statement on Audit Committees in Local Authorities, and the wider *Practical Guidance* publication referred to above. CIPFA states:

"Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report."

Good practice questions		Yes	Partly	No	Comments
Audit Committee purpose and governance					
1	Does the authority have a dedicated audit committee?	✓			Dedicated Audit Committee established as a full, politically balanced committee of Council.
2	Does the audit committee report directly to full council? (Applicable to local government only.)	✓			Minutes of all Audit Committee meetings are reported to the next meeting of full Council as a matter of course. The Chartered Institute of Public Finance and Accountancy (CIPFA) now recommends that the Audit Committee should report regularly on its work to those charged with governance, and at least annually report an assessment of its performance. CIPFA comments that an annual public report may be considered, though this is not essential.

Good practice questions		Yes	Partly	No	Comments
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✓		<p>The Audit Committee's Terms of Reference preceded CIPFA's updated guidance in 2018 on this matter. The Terms of Reference / Constitution therefore need to be updated to reflect CIPFA's latest guidance / wording on the purpose of the Audit Committee.</p> <p>It is proposed that officers work with Audit Committee during 2019/20 to compare existing Terms of Reference with CIPFA's Position Statement on Audit Committees in Local Authorities, and to develop a new Terms of Reference for suggested inclusion at the next review of the Authority's Constitution.</p>
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			<p>Minutes of all Audit Committee meetings are reported to the next meeting of full Council as a matter of course. Minutes of meetings are introduced by the Committee Chair and questions may be asked by any of the 67 elected members on the contents of Audit Committee minutes. Debate takes place within full Council meetings, and, for example, a referral to Audit Committee from full Council was made at its meeting on 1 May 2019.</p> <p>Audit Committee meetings held have included a range of officer attendees from across the Authority, in addition to the Cabinet Member with Portfolio for Corporate Services.</p>
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			<p>Members of Audit Committee are diligent in their reading of reports and this is reflected in debate within the Committee meeting itself. A range of appropriate and challenging questions are asked by Committee members of report authors. In addition the Annual Governance Statement is reviewed by the Committee each year.</p>

Good practice questions		Yes	Partly	No	Comments
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓		<p>See question 2 above.</p> <p>The Chartered Institute of Public Finance and Accountancy (CIPFA) now recommends that the Audit Committee should report regularly on its work to those charged with governance, and at least annually report an assessment of its performance. Officers will work with Audit Committee to consider this further before the end of 2019/20.</p>

Functions of the committee

7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				As set out above (question 3), the current Terms of Reference require some updating to ensure that these are wholly reflective of the most up to date CIPFA guidance. It is recommended that this work takes places during the 2019/20 year.
	▪ good governance	✓			
	▪ assurance framework, including partnerships and collaboration arrangements		✓		The current terms of reference make reference to the assurance framework, but do not explicitly address partnerships and collaboration arrangements.
	▪ internal audit	✓			
	▪ external audit	✓			
	▪ financial reporting	✓			
	▪ risk management	✓			
	▪ value for money or best value	✓			
	▪ counter-fraud and corruption.	✓			
	▪ supporting the ethical framework			✓	

ANNEX A

Good practice questions		Yes	Partly	No	Comments
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			✓	A process for annual evaluations will need to be developed and introduced. It is recommended that this is reviewed by Audit Committee as part of this report and the 2019/20 review of Audit Committee effectiveness.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		<p>One 'wider area' identified by CIPFA is 'Treasury Management' and Treasury Management reports form part of the Audit Committee's agreed annual work programme. Audit Committee work programme also includes the 'Review of External Inspection Reports', presented to Audit Committee in May and November each year.</p> <p>It is recommended that the wider areas contained in CIPFA's Position Statement are considered as part of the 2019/20 review of Audit Committee effectiveness.</p>
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		✓		See questions 3 and 7 above. The current Terms of Reference require some updating to ensure that these are wholly reflective of the new core areas identified in CIPFA's Position Statement. It is recommended that this work takes places during the remainder of the 2019/20 year.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			

Good practice questions		Yes	Partly	No	Comments
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
	▪ separation from the executive	✓			
	▪ an appropriate mix of knowledge and skills among the membership	✓			
	▪ a size of committee that is not unwieldy	✓			
	▪ Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).	✓			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or as appropriate for the organisation?	✓			Yes. In 2012 two independent member roles were introduced to the Audit Committee. The roles have a role definition, person specification, and qualifying criteria, which the independent members must be able to demonstrate that they fulfil. The roles were initially advertised in local publications and on the internet in 2012, and were re-advertised in a similar way in 2017. All appointments to the roles have been made by means of competitive interview.
14	Does the chair of the committee have appropriate knowledge and skills?	✓			Meetings of Audit Committee have been chaired effectively. In accordance with specific qualities stated by CIPFA, the Committee Chair has: <ul style="list-style-type: none"> • Promoted apolitical open discussion; • Managed meetings to cover all business and encouraged a candid approach from all participants; and • Demonstrated an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime.

Good practice questions		Yes	Partly	No	Comments
15	Are arrangements in place to support the committee with briefings and training?	✓			<p>Briefings and training sessions have been provided to Audit Committee, with sessions on the Authority's final accounts process made available to all Audit Committee members.</p> <p>It may be beneficial to develop a suitable programme of formalised training / development and to consider how this would best be delivered, and by whom.</p>
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓	The latest CIPFA guidance on Audit Committees in Local Authorities (2018) includes a 'core knowledge and skills' framework for Audit Committee members. This can be used to guide members in assessing any training needs and to evaluate the overall knowledge and skills of the Committee.
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
18	Is adequate secretariat and administrative support to the committee provided?	✓			

Effectiveness of the committee

19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			✓	This is a new requirement. Formal feedback on Audit Committee performance is to be sought. It is recommended that this is reviewed by Audit Committee as part of this report and the 2019/20 review of Audit Committee effectiveness.
20	Are meetings effective with a good level of discussion and engagement from all the members?	✓			

ANNEX A

Good practice questions		Yes	Partly	No	Comments
21	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?		✓		Audit Committee has been attended by a range of officers, according to the content of reports presented.
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓			It would not be usual for recommendations from Audit Committee to be made regularly, but this is a facility which Audit Committee has utilised when appropriate. See for example, 22 March 2019 with recommendations to Cabinet.
23	Has the committee evaluated whether and how it is adding value to the organisation?		✓		This initial assessment forms the first part of such an evaluation for 2019/20.
24	Does the committee have an action plan to improve any areas of weakness?			✓	It is recommended that the outcomes of the analysis against CIPFA's latest guidance form the basis for development of an Action Plan for 2019/20, with a further report brought before Audit Committee in March 2020.
25	Does the committee publish an annual report to account for its performance and explain its work?			✓	See above (question 6)

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2** 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 governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4** The core functions of an audit committee are to:
 - be satisfied that the authority's assurance 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
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-

- related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities 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
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.
- 7 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 CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities