

RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO ACCOUNTS AND AUDIT COMMITTEE

meeting date: 28 SEPTEMBER 2022
title: CIPFA POSITION STATEMENT: AUDIT COMMITTEES IN LOCAL
AUTHORITIES AND POLICE 2022
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

- 1.1 The purpose of this report is present a summary of *the Chartered Institute of Public Finance & Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police 2022* to the Committee for review and to determine whether the proposed actions would enhance the effectiveness of the committee.

2 BACKGROUND

- 2.1 CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022 ('the Position Statement') sets out their view of the role and functions of an audit committee. It replaces the previous 2018 Position Statement and includes all principal local authorities in the UK.
- 2.2 The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt and 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.
- 2.3 The results of the assessment of the current arrangements in place for the Accounts & Audit Committee against the principles and practices set out in the new Statement are detailed in Annex A.

3 KEY MESSAGES & ISSUES

- 3.1 The 2022 Position Statement sets out the purpose, model, core functions and membership of an audit committee. Key details for each of these areas are set out under each heading below. The Statement defines an audit committee as follows:

Purpose

- 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.

- 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.

Independence and effective model

- 3.2 The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It should be 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.
- 3.3 The Statement notes that local authority audit committees 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.
- 3.4 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.

Core Functions

- 3.5 The core functions of an 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. Specific responsibilities identified 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.
- 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.

Membership

- 3.6 Members need to be of high calibre to provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority. 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.
- 3.7 However, it notes that 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 overall the overall knowledge and expertise of the existing members should be considered when appointing co-opted independent members.
- 3.8 Good audit committees are characterised by:
- 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.
 - 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.

Engagement and outputs

- 3.9 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.

3.10 The Internal Audit Manager has undertaken an assessment against the above key principles to establish whether they have been met, partially met or not met (Annex A). The following Action Plan has been produced, to which members of this committee are asked to consider and agree any actions that could be taken to enhance effectiveness.

4 PROPOSED ACTION PLAN

Ref #	Principle/ Assessment	Proposed Action
2	<i>Be independent of both the executive and the scrutiny functions</i> The terms of reference should be reviewed on a regular basis to ensure meets expectations and details the roles and responsibilities of the committee.	<u>Action 1</u> Internal Audit Manager to review the Accounts & Audit Committee terms of reference to ensure it reflects CIPFA's position statement and roles and responsibilities. The revised terms of reference will be brought to the November 2022 committee for approval.
6	<i>Include at least two co-opted independent members to provide appropriate technical expertise</i> The committee does not have any co-opted independent members.	<u>Action 2</u> Members are asked to consider whether we seek to appoint independent members in line with CIPFA best practice.
7	<i>Core Functions</i> As per Principle 2 above.	<u>Action 1</u> refers.
8	<i>Training Objectives</i> A training needs analysis will be conducted to highlight training requirements in line with CIPFA's expectations.	<u>Action 3</u> To undertake a self-evaluation and review the outcomes to determine training objectives and programme.

Ref #	Principle/ Assessment	Proposed Action
19	<i>Annual Reporting</i> An annual report has not been provided to Full Council.	<u>Action 4</u> To produce a year-end annual report for Full Council demonstrating compliance with the position statement on how it has discharged its duties and assessed performance.

5 RISK ASSESSMENT

5.1 The approval of this report may have the following implications:

- Resources – there are no resource implications arising as a result of this report.
- Technical, Environmental and Legal – The Council must ensure that it has an appropriate governance framework, including an effective audit committee, in place to comply with legislative requirements and good practice. Failure to do this could have potentially significant consequences for the authority in relation to external assessments, public confidence and risk of legal challenge.

The Accounts & Audit Committee is an important source of assurance for managing risk, maintaining an effective control environment, and reporting on financial and other performance. A review of current best practice will help the Committee to fulfil its responsibilities and ensure the relevant Terms of Reference remains appropriate.

- Political – There are no political implications arising from this report.
- Reputation – There are no reputational implications arising from this report.
- Equality and Diversity – There are no equality or diversity implications arising as a result of this report.

6 RECOMMENDED THAT COMMITTEE

6.1 Consider and agree the recommended actions highlighted in Section 4 above.

INTERNAL AUDIT MANAGER

DIRECTOR OF RESOURCES

AA18-22/RP/AC
28 September 2022

CIPFA Position Statement in Local Authorities and Police
2022 – self assessment

ANNEX A

Ref	CIPFA recommended Audit Committee good practice and principles	Yes	Partial	No	Action required
Independence and effectiveness model – the Audit Committee should:					
1	Be directly accountable to full council.	✓			
2	Be independent of both the executive and the scrutiny functions.		✓		Under Section 9A LGA, the Council does not have a scrutiny committee. Internal Audit Manager to review the terms of reference to ensure independence maintained.
3	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.	✓			
4	Have rights to request reports and seek assurances from relevant officers.	✓			
5	Be of an appropriate size to operate as a cadre of experienced, trained committee members.	✓			
6	Include at least two co-opted independent members to provide appropriate technical expertise.			✓	Members are asked to consider whether we seek to appoint independent members in line with CIPFA best practice.
Core functions:					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? <ul style="list-style-type: none"> Maintenance of governance, risk and control arrangements. Financial and governance reporting. Establishing appropriate and effective arrangements for audit and assurance. 		✓		The terms of reference will be reviewed and updated accordingly in line with CIPFA's Position Statement.

Ref	CIPFA recommended Audit Committee good practice and principles	Yes	Partial	No	Action required
Membership:					
8	Members are trained to fulfil their role so that they are objective, have an inquiring and independent approach, and are knowledgeable.		✓		To undertake a self-assessment and review the outcomes to determine training objectives and programme.
9	The membership promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.	✓			
10	The chair is strong, independently minded, and displays a depth of knowledge, skills, and interest.	✓			
11	The members demonstrate a willingness to operate in an apolitical manner.	✓			
12	Members have unbiased attitudes – treating auditors, the executive and management fairly.	✓			
13	The members are able to challenge the executive and senior managers when required.	✓			
Engagement and outputs:					
14	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.	✓			
15	Be able to meet privately and separately with the external auditor and with the head of internal audit	✓			
16	Include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor.	✓			
17	Have the right to call on any other officers of the authority as required.	✓			

Ref	CIPFA recommended Audit Committee good practice and principles	Yes	Partial	No	Action required
18	Support transparency, reporting regularly on its work to those charged with governance.	✓			
19	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.			✓	To produce an annual report for Full Council on the effectiveness of the committee and compliance with the position statement.