

## **Audit Committee**

**26 February 2019**

### **Audit Committees: Practical Guidance for Local Authorities and Police 2018**



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## **Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager**

### **Electoral division(s) affected:**

Countywide.

### **Purpose of the Report**

- 1 The purpose of this report is to advise members of the publication of the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on the function and operation of audit committees in local authorities in the UK and for police audit committees in England and Wales. The guidance also sets out CIPFA's view on the role and function of audit committees.

### **Executive Summary**

- 2 The CIPFA 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.
- 3 Audit Committees are a key component of an authority's governance framework and provide an independent and high-level resource to support governance and strong public financial management.
- 4 All Members of the Committee have been provided with a complete copy of the guidelines for reference with selected extracts referenced within this report. The guidance covers:
  - The Core Functions of an Audit Committee
  - Possible Wider Functions of an Audit Committee
  - Independence and Accountability
  - Membership and Effectiveness

## **Recommendation**

- 5 Members are asked to review the guidance and identify any areas where further development of the arrangements operating at Durham County Council might be required.
- 6 Members are asked to agree that the Committees Terms of Reference are updated to include the relevant changes detailed in the guidance.
- 7 Members are asked to accept that the high level review checklist and self-assessment are completed and discussed at the Committee's next meeting in May.

## **Background**

- 9 The Audit Committee has reviewed its arrangements against previous iterations of CIPFA audit committee guidance, with the most recent assessment taking place in 2013 (at the last release of CIPFA guidance). It is therefore timely that a further self-assessment against the 2018 edition is undertaken.
- 10 The current terms of reference of the committee are attached at Appendix 2 for information.

## **CIPFA 2018 Publication**

- 11 The 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.
- 12 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.
- 13 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 improvements across a range of objectives including:
  - Promoting the principle of good governance and their application to decision making;
  - Raising awareness of the need for sound internal control as well as contributing to the development of an effective control environment;
  - Supporting the establishment of arrangements for the governance and the management of risk;
  - Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
  - Reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
  - Supporting the development of robust arrangements for ensuring value for money; and

- Helping the authority to implement the values of ethical governance including the effective arrangements for countering the risks of fraud and corruption.

## Key Changes

14 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:

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

15 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:

- Reviewing the governance and assurance arrangements for significant partnerships or collaborations;
- 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;
- 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;
- 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
- Publishing an annual report on the work of the Committee.

- 14 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 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.
- 15 The self-assessment has previously been carried out against the key requirements of the previous CIPFA checklists (2013 edition). The following good practice questions have since been added to the checklist:
- *Functions of the Committee* – does the Committee's terms of reference explicitly address the area of 'supporting the ethical framework'?
  - *Membership and 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?
  - *Effectiveness of the Committee* –
    - Are meetings effective with a good level of discussion and engagement from all members?
    - Does the Committee engage with a wide range of leaders and managers, including discussion of audit findings, risk and action plans with the responsible officers?
    - Does the Committee make recommendations for the improvement of governance, risk and control and are these acted upon?
    - Does the Committee publish an annual report to account for its performance and explain its work?

### **Background papers**

- Audit Committee – Practical Guidance for Local Authorities and Police (2013 Edition)

### **Other useful documents**

- None

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## **Appendix 1: Implications**

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### **Legal Implications**

There are no specific legal implications associated with this report. The Audit Committee contributes to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

### **Finance**

There are no specific financial implications associated with this report. The Audit Committee has a clear terms of reference and directly effects and assists in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational and strategic risks.

### **Consultation**

Chair of the Audit Committee and Corporate Director of Resources

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

**Risk**

The key risk is that the Audit Committee continues to comply with relevant and up to date guidance and that its Terms of Reference are appropriate in order to fulfil its role. To mitigate this risk, relevant updates are presented to the Committee as appropriate.

**Procurement**

None.