

The audit committee and organisational effectiveness in local authorities

This guide explains the value an audit committee brings to the local authority. It is aimed at those in a governance or leadership role in an authority, who interact with the committee or receive its reports.

Why do authorities have an audit committee?

Local government bodies are expected to meet high standards of governance and accountability. An audit committee provides a specialist forum to support and monitor the authority in the areas of governance, risk management, external audit, internal audit, financial reporting, and other related areas. There are a number of statutory duties, regulations, and standards relating to financial reporting, governance, and audit that the authority must comply with, and an audit committee is best placed to oversee these.

What value do they bring to the authority?

The audit committee can support the authority in establishing, maintaining, and improving effective governance, risk management, and internal control arrangements. These arrangements are the enablers that allow the authority to deliver against its objectives and improve its performance. They are essential if the authority is to make best use of all its resources and minimise loss and waste.

The audit committee helps the authority to fulfil its responsibilities for accountability to the local community, and meet the expectations of partners, regulators, and other stakeholders.

As the primary point of contact for the authority's auditors, it provides a forum to review audit conclusions and recommendations. The committee can escalate key recommendations for action, ensuring that areas of concern are given proper attention.

How can we know if our audit committee is effective?

Recommended practice is for audit committees to review and assess themselves annually or to seek an external review. The results of the assessment should be available in the annual report from the committee.

Your external auditor will consider the effectiveness of your audit committee when evaluating the authority's governance arrangements. If they have any significant concerns, they will make recommendations for improvement. Any such recommendations should also be included in the committee's annual report.

What are the consequences if our audit committee is not effective?

The main consequences will be that the authority may not address weaknesses in its governance, risk, and control arrangements at an early stage. When an authority suffers a significant service failing, major fraud or other loss, an investigation afterwards will usually identify that warning signs were missed or early steps to intervene were not taken. The audit committee is part of your defence mechanisms, and if it isn't operating effectively, then you may be more vulnerable to things going wrong and less able to identify them.

The audit committee should be able to provide an overall view on the adequacy of assurance arrangements and the outcome of assurances received. If the committee is not effective councillors, leaders and senior officers cannot place reliance on its work.

Your external auditor will consider the strength of your audit committee arrangements and could recommend improvements if they are weak. If there were significant failings, then the auditors could make a statutory recommendation using powers available to auditors in legislation.

How can we make sure that the audit committee is more effective?

There are several steps that should be taken to improve effectiveness. These include:

- Ensuring that the authority's committee is constituted in accordance with recommended practice, the CIPFA Position Statement on Audit Committees in Local Authorities and Police 2022
- Enabling the audit committee to have the required members with knowledge and expertise. These are essential for the committee members, whether they are drawn from elected representatives or recruited as co-opted independent (or lay) members. Selecting members with appropriate knowledge and experience can be supplemented by a planned programme of regular training. Particular attention is needed for the selection of the chair to enable effective working.
- Encouraging audit committee members to participate in networks and forums established for the purpose of sharing good practice.

- Providing access to support and briefings for the audit committee members to help them understand some of the more complex items on the committee agenda and keep up to date with new developments.
- Ensuring the committee's terms of reference are up to date, reflect recommended practice and that the committee is operating in accordance with them.
- Maintaining regular dialogue with the chair of the committee to review how well the committee is operating, provide feedback to the committee and understand any outstanding concerns the committee may have.
- Supporting the impact of the committee by helping all authority members and officers to recognise the importance of its role.

How and when should those in a leadership or governance role interact with the committee?

Audit committee appointments

If you play a role in selecting or recommending elected members of the audit committee, then you can contribute to its success by putting forward people with knowledge, experience, or aptitude to be on the committee. Their willingness to take part in training is a helpful criterion too.

You should ensure that any vacancies for co-opted independent members are filled promptly. You could play a role in the selection process, emphasising to candidates the value the authority places on the committee. The full member body is likely to approve the final appointment.

Attending meetings of the committee

The authority's Chief Executive should ensure that the audit committee is supported and attended by officers of appropriate seniority to be able to act on the audit committee's guidance.

Whilst you are not a member of the committee, when the committee is deliberating on key reports it may be helpful for you to attend, for example:

- to answer the committee's questions
- advise the committee on actions you are taking to address areas of concern, such as matters raised in an audit report

- to listen to the comments and opinions of the committee on key accountability matters, such as the Annual Governance Statement or Annual Auditor Report.

Receiving recommendations from the committee

The committee may make recommendations to senior officers, to other committees, or to the full member body, the body charged with governance. Take notice of its report and consider what appropriate action can be taken.

The committee should agree its own annual report with recommendations for action. This would be provided to the leadership team and full member body and published on the authority's website.

The Chief Executive should ensure that all managers understand the role of the committee and the importance of following its recommendations. They should ensure that a culture exists in which financial management, risk management and governance are given due weight and attention.

Monitoring the effectiveness of the committee

Receive and review the results of the committee's own self-assessment or other evaluation and action plan for improvement. Provide support to the action plan and ask for progress reports.

Supporting the audit committee

Support is vital to make the audit committee successful. By respecting its work and taking seriously any recommendations it makes, can enable it to have more impact.