



## **CORPORATE GOVERNANCE COMMITTEE - 21 NOVEMBER 2022**

### **REVISED CIPFA GUIDANCE FOR AUDIT COMMITTEE MEMBERS AND OFFICERS**

### **REPORT OF DIRECTOR OF CORPORATE RESOURCES AND THE DIRECTOR OF LAW AND GOVERNANCE**

#### **Purpose of report**

1. The purpose of this report is to update members of the Committee regarding revised guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) published in October 2022 and to advise of the implications of this on the role, responsibilities and makeup of the Committee, including a need to amend its terms of reference.

#### **Policy Framework and Previous Decisions**

2. Unlike other sector and devolved government organisations, for local authorities in England, Northern Ireland and Scotland, there is currently no specific legislation or statutory guidance on establishing, composing and specifying the functions of an audit committee, nor its responsibilities in relation to external audit.
3. A council's audit committee is established further to the Local Government Acts 1972 and 2000 and its purpose is to give assurance to elected Members and the public about the governance and financial management of the Council.
4. The Terms of Reference (ToR) of the Corporate Governance Committee (as set out in Part 3 of the Council's Constitution) currently cover the requirements of the Audit Committee for Leicestershire County Council.

#### **Background**

5. Since first reported in November 2019, the Committee has received a number of updates on the 'Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting', more commonly referred to as the Redmond Review. At its meeting on 5 November 2021, the Committee was informed that the Department of Levelling Up, Housing and Communities (DLUHC) had conducted a technical consultation on the Government's planned responses to Redmond. The consultation included proposals to strengthen audit committee arrangements within councils. This related to Redmond's recommendations on, 'Enhancing the functions of local audit and the governance for responding to its findings'.
6. In response to those recommendations, CIPFA had committed to review its 'Audit Committees, Practical Guidance for Local Authorities and Police'. As the guidance

would have no statutory backing, CIPFA considered that it was essential that once the guidance was completed it received the support of key stakeholders including the DLUHC. This would encourage its widespread adoption.

7. The publication of the revised guidance was delayed considerably. However, at its meeting on 13 May 2022, the Committee received CIPFA's revised Position Statement: Audit Committees in Local Government and Police (2022). The Position Statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives, updated to reflect Redmond's findings and recommendations and, importantly it is now supported by DLUHC.

### **The Revised Guidance 2022**

8. The 2022 edition of Audit Committees: Practical Guidance for Local Authorities and Police builds on previous editions but aims to better focus the guidance for the most appropriate audience. For the first time, the revised guidance has been produced in two sections. The first section is specifically targeted towards members of an audit committee. The second section is a supplement to the member guidance and is designed for officers responsible for guiding and supporting audit committees. This section contains references to relevant resources with weblinks, additional information for officers to help ensure operations meet appropriate legislation and good practice and refers to relevant recommendations from the Redmond Review. Copies of both sections are appended to this report marked Appendix A and B respectively.
9. The guidance for members (covering both elected and co-opted independent members) contains an introduction followed by a section on the purpose of audit committees. It recognises that audit committees are a key component of an authority's governance framework; their purpose being 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. As a key component of an organisation's governance arrangements, the committee has the potential to be a valuable resource for the whole authority. Where it operates effectively, it adds value to its authority by supporting improvement across a range of objectives.
10. Overall, an audit committee should be seen as:
  - a. Performing an advisory role, non-political & politically balanced
  - b. A valuable resource to add value through influence, commitment & energy
  - c. Supporting good governance and appropriate stewardship of public assets & resources
  - d. Having a role to ensure resources are targeted in accordance with Council priorities & policies – transparency and accountability to achieve VFM
  - e. Ensuring independence of (internal and external) audit and of the audit committee
  - f. Sighted to significant control failings/overall weaknesses – challenging to ensure any are adequately represented in AGS
  - g. Accountable - reporting to full Council (not Cabinet or other committee) including an annual report

### Core functions

11. This chapter identifies the core areas of business for an audit committee and explains why they are important. It provides guidance on the maintenance of governance, risk and control arrangements (by actively applying the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)), financial and governance reporting and establishing appropriate and effective arrangements for internal and external audit and assurance. The Terms of Reference (ToR) of the Corporate Governance Committee already include the core functions listed in the guidance.

### Possible wider functions

12. This short chapter makes reference to Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (CIPFA, 2021) and the requirement for all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not specify this to be an audit committee role, but it is aware that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of the guidance. Where the audit committee has been nominated (such as the Corporate Governance Committee has for the Council), it needs to undertake a scrutiny role in accordance with the Treasury Management Code in addition to any oversight of governance, risks and assurance matters relating to treasury management that it would consider as an audit committee. Where the committee is undertaking scrutiny, this is likely to involve the following actions:
  - a. Developing greater awareness and understanding of treasury matters among the committee members.
  - b. Reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory.
  - c. Receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities.
  - d. Reviewing the treasury risk profile and adequacy of treasury risk management processes.
  - e. Reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area, so it is likely that committee members will require training, guidance and support when undertaking such scrutiny.

### Independence and accountability

13. The guidance stresses that an audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is 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.
14. The current constitutional arrangements for the Corporate Governance Committee are mostly in line with the guidance. However, a development would be for the Committee to report annually to full Council on how it has complied with the CIPFA

position statement, discharged its responsibilities, and include an assessment of its performance. This could cover:

- a. whether it has fulfilled its agreed terms of reference;
- b. whether it has adopted recommended practice;
- c. whether the development needs of committee members have been assessed and whether members are accessing briefing and training opportunities;
- d. whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review;
- e. what impact the committee has on the improvement of governance, risk and control arrangements within the authority.

#### Membership and effectiveness

15. This section examines the characteristics needed by members and continues with suggested guidance on including co-opted independent members.
16. On 15 June 2022, Members of the Committee were informed by email that the Government considered it proportionate to establish a simple principle that local authorities should have an audit committee with at least one independent member. However, it could be some time before the relevant statute is enacted and so in the intervening period, the Government encouraged local authorities to establish their audit committee arrangements in line with CIPFA's revised guidance, including appointing independent members.
17. The guidance issued by CIPFA recommends that local authorities include two co-opted independent members on their audit committee to:
  - Supplement the knowledge and experience of elected members in specific areas such as finance and audit;
  - Provide continuity outside the political cycle (this being of particular importance where members of the committee can change annually or because of elections);
  - Help achieve a non-political focus on governance, risk and control matters.
18. CIPFA specifically recommends two co-opted members rather than one, as this will allow for the recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee and show commitment in supporting and investing in the committee.
19. Independent members are non-elected representatives who are recruited based on the suitability of their qualifications and experience in the area of audit and/or governance. They should provide:
  - specialist knowledge and insight to the workings and deliberations of the committee;
  - an effective, independent assurance of the adequacy of the risk management framework;
  - an independent review of the Council's financial and non-financial performance;

- independent challenge to, and assurance over, the Council's internal control framework and wider governance processes.
20. The Independent Member(s) would not have a vote in the same way as elected members of the Committee but will be part of the Committee in an advisory and consultative capacity.
  21. Many local authorities have already sought to appoint two independent members on their audit and governance (or similar) committees, and this has proved difficult in some areas. It is therefore intended for practical purposes and to ensure the selection of only appropriate candidates that can and will bring real value to the Council's own Corporate Governance Committee, that the County Council's Constitution (Article 9.02) be amended to allow for *up to two* independent members to be appointed (see Appendix C). This will give a degree of flexibility in the recruitment process if two cannot be immediately appointed.
  22. In accordance with the Council's Constitution, recruitment will be carried out by Members of the Constitution Committee and the Chair of the Corporate Governance Committee will also be involved, following a public advertisement and interviews supported by the Director of Law and Governance. If only one independent member is appointed, the Constitution Committee following consultation with the Chairman of the Corporate Governance Committee will determine if and when a further appointment should be sought.

#### Appendices

24. There are several appendices to the revised guidance:
  - A. Sector and devolved government guidance – this illustrates current guidance and regulations relevant to England (combined authorities), Wales (local authorities and corporate joint committees), England & Wales Police and England, Northern Ireland & Scotland (local authorities).
  - B. Suggested terms of reference – local authority
  - C. Audit committee members – knowledge and skills framework
  - D. Problem-solving difficulties with the audit committee – overcoming difficulties or barriers in fulfilling the Committee's potential effectiveness.
  - E. Self-assessment of good practice - a high-level review that incorporates the key principles set out in CIPFA's Position Statement and the revised guidance. Where an audit committee has a high degree of performance against the good practice principles, 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 should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report
  - F. Evaluating the impact and effectiveness of the audit committee - Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. The improvement tool below can be used to support a review of effectiveness. It identifies the broad areas where an effective audit committee will have impact.
25. Arising from the guidance, the recommendations for improvements for the Council's own Corporate Governance Committee arrangements are:

- To enable the appointment of co-opted independent (or lay) members.
- To support the continued knowledge and experience of audit committee members to improve the programme of training provided for both new and existing members, providing access to briefings which will help them understand some of the more complex items on the committee agenda and keep up to date with new developments.
- Encouraging audit committee members to participate in networks and forums established for the purpose of sharing good practice.
- 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
- Undertaking a self-assessment of good practice and an evaluation of the impact and effectiveness of the audit committee leading to creating the first annual report of the work of the Committee for presentation to Council in November 2023.

26. In conjunction with a review of the revised guidance, the Head of Internal Audit Service has taken the opportunity to review and revise the Committee's Terms of Reference (ToR). The proposed revised ToR are contained in Appendix C (changes highlighted in bold) and subject to any comments made by the Committee will in due course be submitted to the Council's Constitution Committee and full Council for approval.

### **Resource Implications**

27. There are currently no resource implications arising from this report.

### **Timetable for Decisions**

29. A report will be considered by the Council's Constitution Committee at its meeting on 25<sup>th</sup> November 2022 regarding the proposed amendments to the ToR of the Corporate Governance Committee and thereafter presented to full Council in December 2022 for approval. The views of this Committee will be reported to both the Constitution Committee and full Council.
30. Subject to approval, a recruitment campaign for the appointment of up to two Independent Members will begin in the New Year with an advertisement placed in the local press and on the usual recruitment websites used by Leicestershire County Council.
31. The recruitment panel will be convened to interview suitable candidates, following which, members of the Corporate Governance Committee will be updated and a recommendation of the successful candidate will be put forward to full Council for approval in May 2023.
32. It is intended that the Independent Member(s) will be in office and receive training in time for the first Committee meeting in the new Council year.

## **Recommendations**

33. The Committee is recommended to:

- (a) Note the update now provided on the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees: Practical guidance for local authorities and police 2022 published in October 2022;
- (b) Note and support the revised membership and terms of reference for the Corporate Governance Committee contained in Part 2 and Part 3 of the Council's Constitution respectively and as set out in Appendix C.

## **Background papers**

Report to the Corporate Governance Committee, 1<sup>st</sup> November 2019 – Developments in Audit and Governance

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=5782&Ver=4>

Report to the Corporate Governance Committee, 5<sup>th</sup> November 2021 – Internal Audit Service Progress and Plan

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6495&Ver=4>

Report to the Corporate Governance Committee, 13<sup>th</sup> May 2022 - Internal Audit Service – Progress and Plan

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6844&Ver=4>

## **Circulation under the Local Issues Alert Procedure**

34. None.

## **Equality and Human Rights Implications**

35. There are no equality and human rights implications arising from this report.

## **Appendices**

- Appendix A - CIPFA – The audit committee member in a local authority - Audit Committees: Practical guidance for local authorities and police 2022
- Appendix B - CIPFA – Guiding the Audit Committee – Audit Committees: Practical guidance for local authorities and police 2022
- Appendix C - Revised Membership and Terms of Reference for the Corporate Governance Committee

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