

# Review of the Audit and Governance Committee

Cheshire East Council

March 2023

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## Introduction

CIPFA has recently completed a review of the operation of the Audit and Governance Committee at Cheshire East Council. The Committee recognises that it needs to evolve and improve and it is looking for ideas to take its development forward to deliver an effective support to the administrative operation of the Council. The aims of the review were to:

- Help the committee members and those working with the committee to establish a shared understanding of the role of the committee and where it can have an impact.
- Review the operation of the committee, including how it has fulfilled its terms of reference and demonstrated the impact of its work.
- Identify any areas for improvement and support the Council in its development plan for the committee.
- Identify areas where further training or support to committee members is recommended, particularly in accordance with CIPFA's guidance.
- Share CIPFA's guidance and experience of working with other audit committees in local authorities.

## Methodology

We undertook the following work:

1. Meeting all nine of the Committee members to obtain their views on what works well and what needs to be improved. The independent co-opted member was unavailable at the time of the review.
2. Meeting the key officers who work with the Committee to understand their role in relation to it and to gain their perspective on what works and what needs improving.
3. Reviewing the terms of reference of the Committee and meetings of the Audit and Governance Committee (January 2021 – November 2022) using published Committee papers. Observing the meetings on 29 September and 24 November 2022.
4. Using CIPFA's 2022 guidance on audit committees and its experience of working with other audit committees to review how effectively the Audit and Governance Committee has been operating.

## Summary of findings

The Audit and Governance Committee is not functioning effectively as an audit committee, that is, it is not concentrating on matters that would support and develop the effective operation of the organisation of the Council. Instead, it routinely slips into political discussions and goes outside its remit while failing to address some matters that should fall under it. It does not distinguish between its standards role and its audit committee role and it uses the governance part of its name as a reason to include items on its agenda that are already or should be considered by other committees. There is little obvious reference to the Committee's terms of reference other than when officers are trying to find a way to meet a member request. Moving the focus of the Committee to engage in governance matters early, looking for ideas and solutions and acting as a critical friend would help it to make an impact and deliver value to all in Cheshire East Council.

The Committee's terms of reference is based on CIPFA's 2018 guidance and is missing some of the key areas included in the 2022 guidance. It also includes items that should be dealt with by other committees. Revising the Committee's terms of reference and then making the link to the terms of reference in all agenda items would help to clarify its purpose, enabling it to focus on material matters and avoid scope creep. Improving the focus of the Committee will also support it in making an impact across the Council, so helping Cheshire East to function more effectively organisationally.

Further details are given below and we would like to thank all those who contributed to this review (see Annex 2 for a list of interviewees). We look forward to working with the Committee and officers to develop an action plan, based on the recommendations in Annex 1, to take the Audit and Governance Committee forward.

## Audit and Governance Committee terms of reference

We compared Cheshire East's Audit and Governance Committee terms of reference to the sample terms of reference in the 2022 CIPFA audit committee guidance and noted the following:

- There is no explicit reference to a number of areas that we would expect an audit committee to cover (ethical framework, assurance framework, internal audit standards, internal controls, value for money and the local code of governance). In addition, references to other areas need expanding to cover the breadth of the Committee's role in supporting the Council to operate effectively.
- While the Internal Audit Charter sets out that the Head of Audit and Risk should have free and unfettered access to the committee chair and can meet the committee privately, if necessary, this is not reflected in the terms of reference.
- It includes one item (the report on upheld ombudsman complaints) that, in its current form, would be better considered by service committees.
- A number of items routinely appear on the committee agenda that are not included in the terms of reference. While some of these are there to support the committee's functioning (the action log and work programme), at least one item (contract procedure rules/WARNs) is already considered by another committee and should not be part of an audit committee agenda and others seem to be for information and do not obviously support the committee in its work.
- There are no details on how the Committee fits in with other committees, for example how it could receive referrals from another committee or how it could refer items to another committee, nor how it is held to account through reporting to Council.

We have provided the details of our review against the terms of reference separately.

**(Recommendation 1 in Annex 1)**

## Agenda and meeting management

In common with many audit committees, the agenda for Cheshire East's Audit and Governance Committee contains many items and it is difficult to do each item justice while keeping the meeting to a reasonable length. On average, each meeting lasted just under four hours. The agenda could be reduced by:

- Removing the items that should not be part of an audit committee's remit, do not support it to make an impact on the way in which the Council functions and/or have already been considered by another committee.
- Receiving some reports half-yearly or annually and more frequently only by exception.
- Changing the focus of reports to concentrate on problems, developments, solutions and the future rather than providing information to note.
- Clearly differentiating between the audit committee and the standards role of the committee, not moving between the two mid-meeting.
- Making better use of the pre-meeting briefings to discuss and agree an agenda that delivers on the Committee's terms of reference and to identify appropriate areas for consideration coming from both members and officers.

**(Recommendation 2)**

## Audit and Governance Committee members

Committee meetings were well attended, with substitutes occasionally used when a member cannot be present. The use of substitutes is not recommended by CIPFA and any substitutes should be well-briefed and trained in the same way as a regular audit committee member to enable them to contribute effectively.

The Committee is larger than is generally recommended to function effectively. It is easier for all committee members to engage in a smaller committee and so enrich the discussions. We understand that the size of the committee is determined by the need to have a political balance but this should be kept under review.

Audit committees can be technically complex and a few members mentioned that they would like more training while others said that they were satisfied with what they were given. Audit committee training should cover all aspects of the committee's terms of reference. The areas that CIPFA addresses most frequently include:

- An introduction to the audit committee, what its role is and how it can contribute to the successful deliver of an organisation's objectives by receiving and providing assurance.
- The basics of risk management and the role of an audit committee in challenging the risk management framework and acting as a risk committee, if appropriate.
- Understanding and engaging with the governance framework to deliver an effective challenge to organisational arrangements and the AGS.
- Working with internal audit, contributing to the effective delivery of their plans and supporting them in meeting the requirements of the Public Sector Internal Audit Standards (PSIAS).
- Working with external audit and providing an effective challenge to the annual accounts.
- Being an effective audit committee, asking helpful questions, obtaining and providing effective assurance, making an impact and striving for continuous improvement.

**(Recommendations 1, 3 and 4)**

We were pleased to note that the Audit and Governance Committee includes a co-opted independent member. Independent audit committee members are recommended in the revised CIPFA guidance and can be a valuable resource to the committee:

- They can fill skills gaps in the membership.
- They send a powerful message about the independence of the committee.
- They provide continuity and corporate memory for a committee where the membership can change frequently.

The Government announced (1 May 2022) that every public sector audit committee must have an independent member and legislation is to be introduced to this effect. CIPFA recommends appointing at least two independent members.

It is important that a clear message is given about the independence and objectivity of the committee and its ability to challenge the administration's operational arrangements appropriately and effectively. Having an opposition chair supports this and we believe that these arrangements could be strengthened. While the current terms of reference of the committee excludes the leader, deputy and chairs of service committees, we suggest that there is a delay before those who have previously held these roles can sit on the committee and also to exclude those who have senior positions in political parties (whips, group administrators, etc). Developing person specifications for the committee chair and members will support party leaders in putting forward effective committee members.

### **(Recommendations 3 and 5)**

## **Questioning and purpose**

The purpose of an audit committee is to obtain assurance that the organisation is operating effectively (in other words, looking at the engine of the organisation) and to identify ways in which this can be improved. Many of the questions asked by the Audit and Governance Committee were focussed on assurance gathering but, at times, they became political or seemed to be asked to make a point about a person or activity or asked out of interest. A few members mentioned the retrospective nature of the committee, failing to consider its role in finding solutions and improvements. Greater clarity about the Committee's role in its terms of reference and making the link between items on the agenda and the terms of reference would help it to maintain its focus and avoid scope creep.

### **(Recommendation 1)**

## **Keeping things apolitical**

Because the focus of an audit committee is on the organisation of the council, politics should not feature. Audit committees should consider how policies are implemented, not the policy or the decision itself. Almost all interviewees mentioned that the Cheshire East Audit and Governance Committee became political at times and at least two said that it was not a nice committee to attend. We observed some inappropriately political behaviour in meetings, with members using the 'governance' part of its name to raise matters that should be dealt with by other, more politically-focussed committees. Developing the Committee's terms of reference to clarify its role and set out its overarching purpose and philosophy, together with mandatory early training for new Committee members and refresher training for those who are returning to the Committee, would help to set the right culture and reinforce the Nolan principles.

### **(Recommendations 1 and 3)**

## **The audit committee's role in relation to risk**

CIPFA has expanded its advice on the audit committee's role in relation to risk in the most recent edition of its guidance. Previously it focussed on the role of the audit committee in relation to the risk framework and arrangements but it now also considers the risk committee role that audit committees may take on where there is no other body to do so. The terms of reference for the Audit and Governance Committee at Cheshire East includes both of these roles but we saw evidence only of its risk committee role, with members reviewing the full strategic register a few times each year. There was no consideration of risk management arrangements in the two years covered by the review and we understand that this is, in part, a reflection of the need to update the risk management arrangements at the Council. The Corporate Policy Committee and service committees all carry out some risk management roles. It is important that the Committee avoid duplication and:

- Is clear when it is acting as a risk committee and when it is taking on the overview audit committee role.
- Checks for and avoids overlaps with the risk roles of other committees, especially the Corporate Policy Committee, so that it can add value in its work. For example, we noted that the Audit and Governance Committee saw the quarter one risk register at much the same time as the Corporate Policy Committee was reviewing the quarter two risk register.
- Distinguishes between these roles in the terms of reference and sets out clearly what it does and does not do in relation to risk and where it draws assurance from the work of another committee or body.
- Is purposeful in its risk work, focusing on the material outcome of risk management rather than the nuts and bolts of the process. At times, the focus seemed to be political rather than concentrating on the risk register.
- If acting as a risk committee, it invites risk owners to discuss their risks rather than relying on the officers who are routinely in Audit and Governance Committee meetings to answer questions.

### **(Recommendations 1 and 6)**

## **Reviewing the annual accounts**

Reviewing the annual accounts, providing an independent challenge and approving them for the Council are important roles for an audit committee. At Cheshire East, members are given a summary of the accounts, highlighting the key trends, in a report that they are asked to note. They are then asked to examine the accounts during the public inspection period, raising questions with officers before the accounts are signed off. We understand that a few members take on this task for the committee and then report back. While this may help to reduce the length of the agenda and is, perhaps, a pragmatic solution to the problems faced by many audit committees when they review the accounts, this approach raises a number of questions:

- How do all members engage in this review and fulfil their responsibility to provide assurance to those charged with governance?

- How can the committee demonstrate that they have actively reviewed the accounts if questions are dealt with outside committee meetings?
- Why are members asked to note a report where their active involvement is crucial? The accompanying slide pack makes this clear and the report should replicate this.

**(Recommendation 7)**

## Working with internal audit

External audit attends almost every Audit and Governance Committee meeting. We have no observations to make in relation to external audit other than to suggest that they consider the value of attending meetings where their contribution is limited to highlighting national reports.

Internal audit attends every meeting of the Committee and the Chair and Vice Chair meet the Head of Audit and Risk and other officers before each meeting but there is no other formal or informal contact between internal audit and the Committee. Each is reliant on the other to do a good job and we suggest that, as a minimum, the Chair, Vice Chair and Head of Audit and Risk meet informally after each meeting to share ideas, to identify matters to take forward and to plan for the next meeting.

It is recommended good practice for the audit committee to meet both internal and external audit separately, privately and formally at least once a year. This sends the important message that the audit committee takes these services seriously and listens to what they have to say. We understand that the Chair and Vice Chair meet external audit before every meeting and we suggest that the whole committee meet both internal and external audit once a year. These meetings could take the form of a short session before the open part of the meeting starts, with only internal or external audit and the committee members present so that they can formally raise any matters of concern

**(Recommendation 8)**

The Committee's terms of reference lacks detail regarding its relationship with its auditors, internal and external, and references to the Public Sector Internal Audit Standards. It should be expanded to cover the areas included in the CIPFA recommended terms of reference.

**(Recommendation 1)**

## Making an impact

The audit committee is there to make a difference and to help the engine of the council function better. Historic issues have resulted in the Audit and Governance Committee being engaged in challenging matters that have been perceived as political and resulted in officers being inappropriately drawn into the political debate. This has resulted in a lack of trust between officers and members and the Committee has been unable to make an impact. The Committee should use the opportunity when it is reconstituted in May to re-evaluate and reset relationships, both within the Committee and with officers, to encourage a higher level of mutual trust and confidence. If the Committee is to make an impact, members and officers must create an environment of mutual support, trust and understanding. This will enable them to discuss matters openly, to seek effective solutions together and to share delicate or confidential information, knowing that it will not be used inappropriately.

The Committee should look for ways to engage with new developments at an early stage to consider the adequacy of the governance, audit, risk and control arrangements, acting as a

critical friend and supporting the Council to deliver against its objectives. It should also look for opportunities to learn lessons and improve. For example, consideration of the reports on the ombudsman's findings and on WARNs could be refocussed to examine lessons learned and the steps that are being taken to avoid such issues in the future. Changing the emphasis to a more proactive, solutions-based approach would support the Committee in making an impact and demonstrating its value to the Council and all members. Properly constituted working groups, that is with a terms of reference, an agreed deadline and having a political balance, can be another way to engage in supporting the Council to develop and improve.

During the period of this review, Grant Thornton (auditors until 2018) issued a Report in the Public Interest focussing on the culture and governance arrangements at the Council in 2014 – 2018. There were references in this report to 'Elected Members micromanaging staff or placing excessive demands on them' and we observed some of these behaviours in the Audit and Governance Committee meetings that we watched. As the authority continues to develop its governance arrangements, guidance and support around member/officer relationships should include the Audit and Governance Committee.

### **(Recommendations 9 and 10)**

Ensuring that the committee focusses on its key purpose, looks for improvements and towards the future will help it make an impact. Developing the Committee's terms of reference to make this emphasis clear and to highlight its monitoring and assurance role will be a useful starting point. In addition, committee members should both raise Audit and Governance Committee matters elsewhere and bring information from other committees to the Audit and Governance Committee as the occasion arises. We also suggest that the role of the audit committee should be set out in induction training for new councillors and refresher training for those returning to improve the general awareness of the committee.<sup>1</sup> An effective audit committee is an excellent training ground for members who aspire to higher office and should be viewed as a mandatory part of the induction of such members.

### **(Recommendation 1)**

The Committee produces an annual report to the Council, as recommended by CIPFA. However, the report is written by the Head of Audit and Risk and is presented to the Committee for it to note rather than engage in. The focus of the report is on what was covered in the agenda for each meeting rather than on the outcome of those meetings. These reports should come directly from the Chair, with input from officers, and consider both the Committee's activities in delivering its terms of reference and on the difference that it has made in doing so<sup>2</sup>. We suggest that the Committee chair could also produce a short briefing note at the end of each meeting, summarising the key points raised, to be shared with all councillors, thus demonstrating the Committee's impact. These summaries could form the basis of the annual report.

### **(Recommendation 11)**

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<sup>1</sup> Some useful FAQs are included here <https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees>

<sup>2</sup> CIPFA's Position Statement (2022) says that the committee should report annually on how it 'has complied with the position statement, discharged its responsibilities, and include an assessment of its performance ..... The committee should evaluate its impact and identify areas for improvement'

## Annex 1: recommendations and action plan

	Recommendation	Response	Responsible person and date
1	Update the Audit and Governance Committee's terms of reference to set out its purpose, role and position within the governance arrangements at Cheshire East Council and its activities in relation to risk management. In particular, focus on its ability to make a difference and to support the Council to operate more effectively. Consider if the Committee's name appropriately reflects its role. Consider if its size could be reduced.		
2	Once the Committee's terms of reference has been revised, look for ways to reduce the length of the agenda, including identifying items that could be dealt with outside the committee cycle and reporting only those matters where audit committee input is needed. The briefing sessions should be used to this effect. Keep the audit committee and standards roles separate.		
3	Develop person specifications for the chair of the audit committee and its members. Carry out a skills audit of the committee and develop a relevant training programme, both to support those who are new to the Committee and as a refresher for more experienced members. Training should support members to discuss and agree how the Committee is going to address a topic and should be undertaken both to share knowledge and to develop an appropriate culture for the Committee. We suggest that the training offered and the take up are included in the annual report of the Committee (see recommendation 9) and also in the AGS. Training should mandatory for all committee members at the start of each electoral term and when joining or returning to the Committee mid-term.		
4	Consider asking each party to nominate a Committee substitute who will be trained in the same way as a permanent member of the committee. Only these trained substitutes should be allowed to cover for an absent member.		
5	Consider requiring a delay before members who have previously held senior positions in the council are included on the Audit and Governance Committee. Consider also excluding members who are senior in political groups. .		
6	Maintain a strategic approach to risk, focussing on the material matters around risk management arrangements. Taking deep dives into individual strategic risks may be helpful if acting as a risk committee, inviting risk owners to present their risks, to enable a more informed discussion and to increase risk accountability.		

	Recommendation	Response	Responsible person and date
7	The Audit and Governance Committee must formally review the full accounts, demonstrating their active engagement in this delegated responsibility. If the current arrangements continue, all questions dealt with outside meetings, other than purely technical ones, should be raised and answered in a formal meeting to ensure a transparent discussion. The report accompanying the accounts should set out members' role, requiring them to challenge, review and approve the accounts rather than noting them.		
8	Meet internal and external audit separately, formally and in private at least once a year and meet internal audit informally between meetings.		
9	The Committee and officers should work together to rebuild trust and a mutually supportive relationship. In particular, members must respect the confidentiality of the information shared with them in the Committee.		
10	Focus Committee discussions and activities towards the future, learning lessons, looking for improvements and supporting solutions that help the Council to operate effectively. Any working groups should be properly constituted.		
11	Produce an annual report to the Council from the Audit and Governance Committee Chair. Also consider producing a short briefing note from the Chair after each meeting, summarising the key points to be shared with all members.		

## Annex 2: interviewees

Name	Role
Cllr Rachel Bailey	Audit and Governance Committee Member
David Brown	Director of Governance and Compliance, Monitoring Officer
Cllr Carol Bulman	Audit and Governance Committee Member
Jane Burns	Executive Director, Corporate Services
Cllr Mark Goldsmith	Audit and Governance Committee Member
Josie Griffiths	Head of Audit and Risk
Cllr Alift Harewood	Audit and Governance Committee Member
Cllr Marilyn Houston	Audit and Governance Committee Member
Cllr James Nicholas	Audit and Governance Committee Member
Cllr Patrick Redstone	Audit and Governance Committee Member
Brian Reed	Head of Democratic Services and Governance
Cllr Margaret Simon	Chair of Audit and Governance Committee
Cllr Mike Stewart	Audit and Governance Committee Member
Alex Thompson	Director of Finance and Customer Services, S151 Officer
Janet Witkowski	Head of Legal Services



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