

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 30 January 2014
Report of: Audit Manager
Title: Review of new CIPFA Guidance on Audit Committees
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.0 As part of the Committee's ongoing efforts to ensure that it operates effectively and fulfils its purpose, a report setting out the Chartered Institute of Public Finance and Accountancy's (CIPFA) view on the role and functions of an audit committee is presented to Members for information.

2.0 Recommendation

- 2.1 That the Committee be advised of CIPFA's view on the role and functions of an audit committee and note that:
- (i) The report will be shared with the Constitution Working Group which is reviewing the Audit and Governance Committee's Terms of Reference as part of the Constitution Committee work programme.
 - (ii) Final approval for amendments to the Committee's Terms of Reference will be for full Council to approve, following reference to and recommendation from the Constitution Committee, because it forms part of the Constitution.
 - (iii) A report on the self assessment of the effectiveness of the Committee using the latest guidance will be brought to the Committee in March 2014.

3.0 Reasons for Recommendations

- 3.1 Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of the Council. The existence of the Audit and Governance Committee does not remove responsibility from senior managers, Members and the Leader, but provides an opportunity and resource to focus on these issues.
- 3.2 In order to support the Committee in performing effectively, this report advises Members of CIPFA's view on the role and functions of an audit committee as detailed in Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition). CIPFA's 2013 Position

Statement on Audit Committees in Local Authorities, their suggested Terms of Reference and the Audit and Governance Committee's current Terms of Reference are included as Appendices A, B and C of this report.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

7.1 The Accounts and Audit (England) Regulations 2011 state that the Council is responsible for ensuring that financial management is adequate and effective and that the system of internal control is sound and facilitates the effective exercise of functions and the management of risk. Furthermore, Section 151 of the Local Government Act 1972 requires the Council to 'make arrangements for the proper administration of its financial affairs'.

7.2 The Chief Operating Officer role is key to discharging the requirement for sound financial management at the Council. To be truly effective, the Chief Operating Officer requires an effective Audit and Governance Committee that provides support and challenge, as well as adequate and effective audit arrangements.

8.0 Legal Implications

8.1 Whilst not a statutory requirement, audit committees in local authorities are a key component of governance and are necessary to satisfy the wider requirements for sound financial management highlighted at paragraph 7.1.

9.0 Risk Assessment

9.1 Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an effective audit committee can:

- raise awareness of the need for robust risk management, control and corporate governance arrangements and the implementation of audit recommendations

- increase public confidence in the objectivity and fairness of financial and other reporting
- reinforce the importance and independence of internal and external audit and any other similar review process
- provide additional assurance through a process of independent and objective review

9.2 The Audit and Governance Committee is, therefore, an important source of assurance about the Council's arrangements 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.

10.0 Background and Options

10.1 During September 2013, CIPFA announced that it had decided to update its original 2005 guidance on audit committees in local government. Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition) updates the core functions of the audit committee in relation to governance, risk management, internal control and audit to reflect the changes since 2005. This report looks at the latest guidance in order to support the Audit and Governance Committee in performing effectively.

10.2 The 2013 Position Statement on audit committees in local authorities (Appendix A) sets out CIPFA's view of the role and core functions of an audit committee. In order to allow Members to consider current arrangements against best practice, CIPFA's suggested Terms of Reference are included at Appendix B and the Audit and Governance Committee's current Terms of Reference are included at Appendix C. Members are asked to note that this report will be shared with the Constitution Working Group which is reviewing the Audit and Governance Committee's Terms of Reference as part of the Constitution Committee work programme.

10.3 The guidance recognises that one area that has significantly developed since 2005 is that Authorities now have a wide range of partnership arrangements in place and Cheshire East is no exception. The headline proposed governance and stewardship arrangements of the new Alternative Service Delivery Vehicles (ASDVs) are subject to a separate paper at this Committee meeting, and the guidance on 'Partnership Governance' is included in paragraph 10.5 of this report.

10.4 The remainder of the report looks at factors that will, in accordance with the guidance issued by CIPFA, support improvement and increase the effectiveness of an audit committee.

Partnership Governance

- 10.5 CIPFA recognise that local authorities commonly have a wide range of partnership arrangements and, that although ensuring the adequacy of governance and risk management over such arrangements can be complicated, it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons the role of a Council's audit committee should be clearly defined.
- 10.6 The guidance goes on to state that this role could include considering the assurance available on whether the partnership arrangements are satisfactorily established and are operating effectively. For example, an audit committee could seek assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. This role could also include establishing what arrangements have been put in place to maintain accountability to stakeholders, ensure transparency of decision making and ensure standards of probity are maintained.
- 10.7 Furthermore, where an authority is developing new partnership arrangements, its audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.
- 10.8 An audit committee should also consider the coverage of assurances that underpin the Annual Governance Statement (AGS) to make sure that partnerships are adequately covered and may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities (where major areas of governance or risk is shared with other public bodies) or a joint committee (where there is a shared management team and single functions for finance, audit and risk).

Independence

- 10.9 CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee because combining audit with other committees can create confusion about the role and dilute focus. A local authority's audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process. Financial scrutiny is a different role from that fulfilled by an audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance.

- 10.10 However constituted, all members should be aware that the work of an audit committee is non-political.

Decision making powers and delegations

- 10.11 CIPFA states that all audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision-making. The committee's effectiveness does not depend on the delegation of powers.
- 10.12 The constitution of a local authority may, however, also include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review.

Administrative and operational arrangements

- 10.13 It is recommended that where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and thus unproductive meetings. Equally, all audit committees should review whether the inclusion of each agenda item results in added value and whether some time consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, an audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers.

Supporting the audit committee and key relationships

- 10.14 The regular attendance of key senior management figures is important both to maintain the credibility of an audit committee and to ensure that members are adequately supported by appropriate professionals.
- 10.15 A number of officers will have an important relationship with the committee. The Chief Finance Officer (CFO) role (Chief Operating Officer at Cheshire East) and the remit of the audit committee are closely aligned and complementary. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government emphasises the importance of having an effective audit committee to support the CFO. The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that an audit committee receives any necessary advice and information, so that both

functions can operate effectively. An audit committee should then be in a position to provide effective support to the CFO.

- 10.16 CIPFA indicates that it may be appropriate to consider how an audit committee operates outside formal meetings especially where it is necessary to keep committee members briefed on issues that are on the agenda, and other matters that are too detailed for inclusion on the committee agenda.

Accountability

- 10.17 Given its role in the governance structure and in promoting the principles of good governance, an audit committee should be clear how it supports one of the key principles: accountability. It is also important that all audit committees are held to account on the extent to which they fulfil their purpose.
- 10.18 Through review of internal and external audit reports, monitoring of risk registers and other key strategies, an audit committee will hold those responsible for the implementation of recommendations and action plans to account. In addition, by overseeing the process of evaluating and improving governance, risk management and control, an audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.
- 10.19 CIPFA's view is that an audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council.

The aspects that should be specifically considered include:

- Whether the committee has fulfilled its agreed terms of reference.
 - Whether the committee has adopted recommended practice.
 - Whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities.
 - Whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review.
 - What impact the committee has on the improvement of governance, risk and control within the authority.
- 10.20 The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account.

Composition and operation

- 10.21 Any audit committee that is a properly constituted committee of a council will need to abide by its rules concerning political balance. One factor important for the success of an audit committee, however, is ensuring a non-political approach to meetings and discussions.
- 10.22 CIPFA discourages membership from executive members on the committee because it could deter the committee from being able to challenge or hold the executive to account on governance, risk and control matters.
- 10.23 The guidance goes on to say that the leader of the cabinet should not be a member of an audit committee. However, an audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Developing audit committee effectiveness

- 10.24 An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, an authority's business. Since it is primarily an advisory body, it can be more difficult to identify how an audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence' and 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership are essential requirements for delivering effectiveness.
- 10.25 Using the recommended practice from the new CIPFA guidance should help the Authority to achieve a good standard of performance. Completing the evaluation within the guidance will support an assessment against recommended practice to inform and support the Audit and Governance Committee. This will be completed with the Chair and Vice Chair and brought to the March 2014 meeting.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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