

TITLE	Audit Committee Effectiveness and Action Plan
FOR CONSIDERATION BY	Audit Committee on 1 February 2023
WARD	None Specific
LEAD OFFICER	Chief Executive - Susan Parsonage

OUTCOME / BENEFITS TO THE COMMUNITY

This report provides assurance that the Council's Audit Committee has considered its arrangements and effectiveness, and that an improvement plan is in place to further enhance the value that the Committee adds to the Council's overall governance arrangements.

RECOMMENDATION

That the Audit Committee:-

1. Reviews and agrees its annual assessment of the Committee's effectiveness at Appendix A based on the October 2022 CIPFA guidance on local authority audit committees;
2. Review and agrees the associated action plan at Appendix B including: -
 - a. Approving the recruitment and appointment of a second independent member of the Committee for the 2023/24 municipal year
 - b. Recommending to Council the proposed constitutional changes to the Audit Committee's terms of reference as set out at Appendix C.

SUMMARY OF REPORT

The effectiveness of the Audit Committee has been reviewed in line with the Chartered Institute of Public Finance (CIPFA) self-assessment of good practice. The overall effectiveness was found to be satisfactory with a few areas of improvement which require consideration.

The main changes proposed are an update to the Committee's terms of reference in line with the latest guidance from CIPFA which was published in October 2022, and the appointment of a second independent member to the Committee.

1. Background

- 1.1 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 to full Council from the committee.

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

- Ensuring that the audit 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.

2. Annual Assessment

2.1 CIPFA recommends that the audit committee considers its self-assessment against the following key themes:-

- Audit committee purpose and governance
- Functions of the committee
- Membership and support
- Effectiveness of the committee

2.2 The last full review of the Committee's effectiveness was completed in September 2021. The review identified a number of areas of good practice and concluded that the Committee was generally effective in promoting governance and the maintenance of appropriate risk management and control arrangements within the Council.

2.3 The following issues were identified in September 2021 as areas requiring change or improvement:

Annual evaluation – it was good practice to look at the effectiveness of the Committee. As part of the preparation and consideration of the Committee's annual report, this evaluation would be formalised. The annual report to Council presented to the July 2022 full Council commenced this enhanced reporting process – the draft Audit Committee Annual Report for 2022/23 will be considered at the March meeting of the committee.

Any areas beyond the core functions of the Committee – to consider whether the Committee’s terms of reference require amendment. Members needed to be mindful of the role of Overview and Scrutiny, and to ensure that there was not duplication in work programmes.

Independent member - CIPFA guidance set out the benefits of having at least one independent member of the Audit Committee. This was actioned in summer 2022 with Mike Drake attending his first meeting of the committee in September 2022.

Individual Committee members’ knowledge and skill set – in 2022/23 a more structured training programme has been introduced with dedicated training on risk management on 21 November and an overview session led by a CIPFA consultant held on 7 December.

Adding value. It was noted that the annual report to Council would specifically address how the Audit Committee had added value during the year.

2.4 In October 2022, CIPFA updated their guidance (Audit Committees: Practical Guidance For Local Authorities And Police). A summary of the key points is as follows – the Committee is asked to note that specific areas for consideration are highlighted in bold/italics.

i. Independent and effective

- be directly accountable to the authority’s governing body i.e. full Council
- be independent of both the executive and the scrutiny function
- the audit committee should have no other functions, and ***explicitly no decision-making role.***
- have rights of access to and constructive engagement with other committees/functions
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.
- The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation. Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at ***least two co-opted independent members*** to provide appropriate technical expertise.
- Currently, some authorities have delegated decisions such as the approval of the financial statements to the audit committee. This takes the audit committee beyond its advisory role CIPFA recommends that the ***audit committee remains an advisory committee*** and does not have delegated powers.

ii. Core functions:

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.

- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.
- The audit committee should include counter fraud and corruption within its agenda. This should not be limited to an update to the committee on a significant case of fraud or corruption. The audit committee's responsibility to have oversight of arrangements means that they should be able to judge whether the authority's arrangements are fit for purpose
- As part of the audit committee's oversight of the governance framework and assurances underpinning the Annual Governance Statement (AGS), the committee may wish to review the effectiveness of the whistleblowing arrangements

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and **review** the statutory statements of account and any reports that accompany them.
- Care should be taken to not overlap with financial scrutiny. Tasks such as budget monitoring should not be undertaken by the committee.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - **oversee its independence, objectivity, performance and conformance to professional standards**
 - support effective arrangements for internal audit
 - promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.
- CIPFA have endorsed the recommendations of the Redmond Review that the **external audit annual report should be submitted to full council by the external auditor.**

Audit committee membership

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach and are knowledgeable.

- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.
- CIPFA's recommendation is that a committee size of no more than eight members should be established. CIPFA also recommends that the use of substitutes on the committee is avoided.
- Where the committee is strictly advisory and not subject to other requirements, full council can vote to waive the political balance requirement and specify other criteria to decide who should serve on the committee.

Engagement and outputs

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- ***be able to meet privately and separately with the external auditor and with the head of internal audit***
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the CIPFA position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

2.5 The 2022/23 annual assessment for Wokingham Borough Council concludes a score of 126 out of 200. The detailed results of the assessment are provided at Appendix A.

3. Action Plan

See appendix B,

4. Terms of Reference

The functions of the Committee are set out in the Constitution at clause 4.4.3. At Appendix C is a tracked change version of 4.4.3 taking into account the latest CIPFA guidance.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£1,000	Yes	Revenue
Following Financial Year (Year 3)	£1,000	Yes	Revenue

Other financial information relevant to the Recommendation/Decision

The additional revenue relates to the allowance for a second independent member of the committee.

Cross-Council Implications

The Audit Committee and its effectiveness impacts all aspects of the Council's services and priorities.

Public Sector Equality Duty

Not applicable as this is an information report.

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*

There are no direct implications in this report for the Council achieving its carbon neutral objectives..

Reasons for considering the report in Part 2

Not applicable.

List of Background Papers

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Contact Andrew Moulton	Service Governance
Telephone No Tel: 07747 777298	Email andrew.moulton@wokingham.gov.uk