

# CIPFA Guidance on Audit Committees

<b>Report number:</b>	<b>PAS/WS/24/003</b>	
<b>Report to and date(s):</b>	<b>Performance and Audit Scrutiny Committee</b>	25 January 2024
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**Decisions Plan:** **This item is not required to be included in the Decisions Plan.**

**Wards impacted:** **No specific wards are impacted by this report.**

**Recommendation:** **It is recommended that the Performance and Audit Scrutiny Committee:**

1. Considers and agree to the proposals set out in paragraphs 2.2 to 2.10 to strengthen West Suffolk Council’s audit committee arrangements.

## 1. Context to this report

- 1.1 There is an increasing focus on all local authority financial and governance matters including local audit committee arrangements, given the recent failings and / or struggles of a small number of authorities.
- 1.2 In 2022 CIPFA issued a new Position Statement on Audit Committees in Local Authorities and Police, followed later that year by a new supporting publication giving practical guidance. This has been approved by CIPFA's Public Financial Management Board as CIPFA guidance and supported by the Home Office and the Department for Levelling Up, Housing and Communities (DLUHC).
- 1.3 In practice this means there is an expectation that authorities in the UK, and police bodies in England and Wales, will follow this guidance as good practice, and it also acts as a reference point for external auditors and other stakeholders. DLUHC has confirmed that the government would encourage local bodies to establish their audit committee arrangements in line with CIPFA's guidance.
- 1.4 Also, to note is that internal audit standards, which govern how internal audit teams operate, are currently in the process of being revised by the relevant external bodies. It is currently expected that the new standards will be introduced in early 2024 with a twelve-month period for implementation. When finalised, the new standards are likely to have implications for the responsibilities of the audit committee towards internal audit. A further update (at the relevant time) will be provided once the new standards are agreed.

## 2. Proposals within this report

- 2.1 The recent guidance from CIPFA regarding audit committees has been reviewed against the council's current arrangements, and a number of proposals are made to further strengthen these arrangements in key areas of Performance and Audit Scrutiny Committee activity. These proposals are set out in paragraphs 2.2 to 2.10 below.

### 2.2 **Oversight of significant collaboration arrangements and governance arrangements for the authority's partnerships**

A Shareholders Advisory Group has been established for Barley Homes, but **we propose** to also consider what oversight / governance arrangements in respect of other significant collaborations / partnerships would be appropriate. As part of this, we will look at what other councils do in this area and consider whether an annual report to the Performance and Audit Scrutiny Committee on partnerships would add value.

If following this review, a change to the Committee's Terms of Reference is required then the Constitution Review Group will be requested to advise the Council on the necessary amendments to the constitution.

2.3 **Review by the Performance and Audit Scrutiny Committee of draft financial statements prior to external audit**

Draft financial statements are published on the website (by end of May each year) and issued to this committee alongside the outcome of the annual audit (prior to the current external audit market resource challenges this would have been around September time each year). Where the start of the annual external audit is expected to be significantly delayed (for example 9 months plus after the publication of the draft financial statements) the S151 Officer will liaise with the Chair of the committee to schedule a review of the draft financial statements prior to the start of the annual external audit, as was the case for the 2022 to 2023 draft financial statements. **No change is currently proposed** to the current approach, but we will keep this under review.

2.4 **Statement of accounts and external audit report to go to full council**

The statement of accounts and the external audit report are both currently received by the Performance and Audit Scrutiny Committee (PASC). Minutes of PASC and the Chair of PASC's annual report include reference to the statement of accounts, audit process and outcomes of the audit, therefore full council does have visibility in this area. Therefore, **no change is currently proposed** but we will keep this under review including ensuring that PASC delegations allow for it to recommend, should it wish to do so, that full council approval of the accounts is required, particularly if there are areas of concerns highlighted in the external auditor's report.

2.5 **The audit committee should be no more than eight members and the use of substitutes is avoided**

The council's Constitution currently allows for up to 12 members of the Performance and Audit Scrutiny Committee and the use of substitutions. **No change in this regard is currently proposed** although it should be noted a separate report is on this agenda regarding appointing two independent members within the current 12-member total.

2.6 **Where an authority has undergone an external inspection, peer review or other intervention, an improvement programme should be developed**

An external review of internal audit's compliance with the Public Sector Internal Audit Standards was reported to the Performance and Audit Scrutiny Committee in June this year and included an action plan to make minor improvements. This practice will continue.

**It is proposed** that any future peer reviews / intervention action plans should be monitored through this committee. If this proposal is supported by the committee, then the Constitution Review Group will be requested to advise the Council on the necessary amendments to the constitution so that this change is included as part of the Terms of Reference for the Committee.

2.7 **The audit committee should have no other functions, and explicitly no decision-making role**

The main decision making that the Performance and Audit Scrutiny Committee is involved in is around the approval of the annual statement of accounts. **No change is currently proposed** (see paragraph 2.4) but this will be kept under review.

2.8 **Members should sit on the audit committee for no more than two full terms, to maintain independence**

Currently, members often complete a four-year term subject to political balance checks. This is reviewed annually as part of the 'Review of political balance and appointment to committees' report to Annual Council meetings.

**It is proposed** that membership of this committee continues to be reviewed annually as part of the annual appointment to committees process.

2.9 **Member training**

Member induction and committee training is run by a mixture of in-house training and external trainers. Externally supported training has included:

- external treasury advisors providing treasury management training.
- audit committee effectiveness training offered by the Local Government Association to audit committee chairs.
- Ernst and Young training covering:
  - the audit landscape (regulations)
  - scope of the external audit
  - how external audit work is delivered
  - what the audit opinion means
  - accounting framework

- auditing framework
  - detailed audit strategy
  - Value For Money (VFM)
  - Audit reports
  - External audit expectations concerning the role of an audit committee, and how that may impact the audit strategy and the assessment of VFM.
- an external trainer provided training on effective review of the financial statements covering:
    - overview of the law, rules and regulations surrounding the financial statements
    - how to read the financial statements and what to look for.
  - further training with the above external trainer has been arranged for February 2024 covering effective finance and budget scrutiny.

2.10 **The audit committee should have co-opted independent members – DLUHC recommend at least one and CIPFA recommend two**

A separate report is on this agenda regarding appointing independent members.

### **3. Alternative options that have been considered**

- 3.1 There is an expectation that local authorities in the UK will follow the CIPFA guidance on audit committees as good practice, and it also acts as a reference point for external auditors and other stakeholders. Further, DLUHC has confirmed that the government would encourage local bodies to establish their audit committee arrangements in line with CIPFA's guidance. This guidance was therefore reviewed against current arrangements in place at West Suffolk Council. No other options were considered.

### **4. Consultation and engagement undertaken**

- 4.1 This report has been prepared in consultation with the Chair of Performance and Audit Scrutiny Committee and relevant officers.

### **5. Risks associated with the proposals**

- 5.1 If the CIPFA guidance is not followed where it makes sense to do so, there is a risk that the effectiveness of the Performance and Audit Scrutiny Committee will not be maximised.

## **6. Implications arising from the proposals**

- 6.1 All implications arising from the proposals are covered within the report.

## **7. Appendices referenced in this report**

- 7.1 None

## **8. Background documents associated with this report**

- 8.1 CIPFA Audit Committees: Practical Guidance For Local Authorities and Police (2022 edition). This is a paid for publication so cannot be widely released.
- 8.2 PASC current constitutional Terms of Reference ([Scrutiny Committees Procedure Rules B1.1 – B1.3](#))