

# North Tyneside Council Report to Audit Committee Date: 22 March 2023

Title: Review of Audit  
Committee Effectiveness

Report from Service Area: Resources

Report Author: Richard Dunlop, Interim Chief Internal Auditor (Tel: 643 5738)

Wards affected: All

## PART 1

### 1.1 Purpose:

The purpose of this report is to present a 2022/23 self-assessment of Audit Committee arrangements. This has been undertaken with reference to the revised good practice guidance published in October 2022 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### 1.2 Recommendation(s):

It is recommended that Audit Committee:

- (a) considers and endorses the latest self-assessment of the Audit Committee arrangements against the good practice guidance recommended by CIPFA. The detail of the self-assessment is attached as **Appendix A**;
- (b) notes that changes to the Audit Committee Terms of Reference set out in the Constitution may be updated at its next revision to reflect the latest CIPFA guidance; and
- (c) agrees that the self-assessment undertaken will form the basis of an annual report from Audit Committee, compiled by the Chair of Audit Committee, supported by the Chief Internal Auditor, which will be prepared for presentation to Cabinet demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the year.

### 1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the 'Our North Tyneside Plan'.

### 1.4 Information

- 1.4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) periodically publishes good practice guidance covering the role, functions, and operation of Audit Committees in Local Government. The latest such guidance ('Audit Committees – Practical Guidance for Local Authorities and Police') was published in October 2022. It is

good practice to undertake an annual review of the effectiveness of Audit Committee arrangements.

- 1.4.2 Annual self-assessments of Audit Committee arrangements against CIPFA guidance have been undertaken. These self-assessments identified a good level of conformance and have been reported Audit Committee each year.
- 1.4.3 This self-assessment, undertaken during February and March 2022, was completed by the Chair of the Audit Committee in conjunction with the Chief Internal Auditor and Group Assurance Manager. The assessment process included an invitation to all serving elected members of Audit Committee to meet with the Chair, Chief Internal Auditor and Group Assurance Manager to discuss Audit Committee arrangements. The process also included the Chief Internal Auditor and Group Assurance Manager consulting with Senior Officers of the Authority, including the Director of Resources (s151 Officer).
- 1.4.4 Of particular interest was the skills and knowledge assessment, which was completed by seven of the nine members of the committee. The assessment identified that as a collective there was a good level of knowledge and skills across all core areas. Whilst individual members may have scored themselves low in certain areas, the collective committee knowledge and skills is good. The assessment shows:
- current membership is experienced with most members having five or more years experience serving on Audit Committees
  - core knowledge - average score of 3.3 (out of 4) across nine areas with no single area demonstrably weak (lowest cumulative score being 2.6)
  - core skills - average score of 3.1 (out of 4) across six areas with no single area of weakness (lowest cumulative score being 2.9)
- 1.4.5 This self-assessment against the latest guidance, has again identified a good level of performance, with a 182 score out of a possible 200. This is a sound position and demonstrates the Authority's Audit Committee is working effectively. The CIPFA Guidance has been subject to updating and change since the 2018 edition and in this context some of the Terms of Reference of the Audit Committee may benefit from updating at the next Constitution review. The issues requiring clarification are:
- Audit Committee currently approves the annual statement of accounts, whereas recommended best practice is that it maintains its advisory role by not taking on decision making powers. It is recommended that the Audit Committee recommends the statement of accounts for approval to the Council.
  - The Audit Committees annual report is currently presented to Cabinet, whereas the expectation is that the Audit Committee report to full Council. It is recommended that the Audit Committee present to Cabinet and recommend Cabinet refers the annual report to Council for final approval.

## **1.5 Decision Options:**

It is recommended that Audit Committee notes and endorses the self-assessment of current arrangements against CIPFA good practice guidance, and that this work forms the basis of an annual report from Audit Committee demonstrating how it meets its Terms of Reference and providing a summary of the work of the committee during the year.

It is recommended that the Audit Committee notes that its Terms of Reference in the Constitution will be updated to meet the requirements of the CIPFA 2022 Guidance.

There are no other options available in relation to this report.

#### **1.6 Reasons for recommended option:**

This recommendation will allow the Authority to operate in line with legislation, good practice, and professional guidance.

#### **1.7 Appendices:**

**Appendix A:** Self-assessment of Good Practice (March 2023) – from CIPFA, Audit Committees, Practical Guidance for Local Authorities and Police, published October 2022

#### **1.8 Contact officers:**

Richard Dunlop (Interim Chief Internal Auditor) Tel 643 5738  
Marc Oldham (Acting Group Assurance Manager) Tel 643 5711

#### **1.9 Background information:**

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA, 2022 (P)
- (b) North Tyneside Council Constitution, version 25, June 2022 (P)
- (c) Review of Audit Committee Arrangements, Report to Audit Committee, 23 March 2022 (P)
- (d) The 'Our North Tyneside' Council Plan 2021-2025, 2021 (P)
- (e) Audit Committee Annual Report 2021/22, September 2022 (P)

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

The Audit Committee contributes to the Council's governance framework, including the review of financial governance as appropriate.

There are no financial implications arising from the recommendations set out in this report.

### **2.2 Legal**

The Public Sector Internal Audit Standards, and related Local Government Application Note, presume that local authorities will have an Audit Committee undertaking the mission identified by CIPFA in its 2022 publication "Audit Committees – Practical Guidance for Local Authorities and Police".

### **2.3 Consultation/community engagement**

The analysis against CIPFA's good practice guidance is included in this report for consultation with current members of Audit Committee. All serving elected members of the Audit Committee were invited to meet with the Chair (of Audit Committee) and Chief Internal Auditor to discuss the committee arrangements.

### **2.4 Human rights**

There are no human rights issues arising from this report.

### **2.5 Equalities and diversity**

There are no equality and diversity issues arising from this report.

### **2.6 Risk management**

Risks have been considered and there are no risks identified directly arising from this report.

### **2.7 Crime and disorder**

There are no specific crime and disorder issues arising from this report. The work of Audit Committee is a key strand in the Authority's counter-fraud arrangements.

### **2.8 Environment and sustainability**

There are no environment and sustainability issues arising from this report.

**Report authors**      Richard Dunlop  
                                 Marc Oldham

**Audit Committee Arrangements: Self-Assessment of Good Practice (March 2023)**

(Extract from CIPFA, Audit Committees: Practical Guidance for Local Authorities and Police, published October 2022)

CIPFA outlines that the checklist below provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement on Audit Committees in Local Authorities, and broader practical guidance referred to above. Within the practical guidance CIPFA specifically states:

*“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.”*

Good Practice Question		Does not comply	Partly Complies and extent of improvement needed			Fully Complies	Comment
			Major improvement	Significant improvement	Moderate improvement		
Weighting of Answers		0	1	2	3	5	
<b>Audit Committee Purpose and Governance</b>							
1	Does the authority have a dedicated audit committee that is not combined with other functions (e.g., standards, ethics, scrutiny)?					5	Dedicated Audit Committee established as a full, politically balanced committee of Council. Agreed at meeting of Council on 21 January 2010 (Minute C109/01/10) and operation and terms of reference set out in NTC Constitution (2022, p98 – 102).
2	Does the Audit Committee report directly to the governing body - full council)				3		There is a general provision in the Constitution (3.5 p87) that allows any

						<p>committee of the Council to report matters up to full Council.</p> <p>An annual report from Audit Committee for the 2021/22 financial year was provided to Cabinet in September 2022.</p> <p><b>Key consideration</b> – In order to fully comply with CIPFA Guidance the annual report from Audit Committee should be reported to full Council, which will be considered at the next Constitution review.</p>
3	Has the audit committee maintained its advisory role by not taking on any decision-making powers?				3	<p>Current Terms of Reference (ToR) includes a decision-making power.</p> <p><u>Below extract from AC ToR in the Constitution -</u>  “32. <u>To review and approve the annual statement of accounts including any subsequent amendments.</u> Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority. “</p> <p>.</p> <p>3<sup>rd</sup> para on p23 of 2022 CIPFA guidance makes specific reference to approval of financial statements specifying “Currently, some authorities have delegated decisions such as the approval of the financial statements to the audit committee. <u>This takes the audit committee beyond its advisory role.</u>”</p> <p><b>Key consideration</b> –Should Audit Committee approve the accounts, or review</p>

							and recommend to Full Council to approve and sign? This is being considered as part of the review of the Terms of Reference.
4	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFAs 2022 Position Statement?				3		<p>The essence of the ToR wording is the same but not fully reflecting specific 2022 CIPFA Guidance wording, as the Guidance was issued relatively recently. For example, ToR not explicit about accountable to Full Council.</p> <p><b>Key consideration</b> – As above, the Terms of Reference is being considered for next review of Constitution to align more closely with 2022 CIPFA guidance.</p>
5	Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?				3		<p>This has been examined by the previous reviews of Audit Committee arrangements and identified that the understanding of role and purpose was variable across the Authority at that time. An action to help improve understanding across a membership that changes, was to compile and present an Annual Report from the Audit Committee. Annual reports were presented to Cabinet in October 2021 and September 2022.</p> <p>An e-learning training module for Audit Committee is being considered in conjunction with Organisational Development. The module will be made available to all members to complete through the development programme. It is hoped this will also help improve understanding of the role and purpose of the Audit Committee.</p>

							The Senior Leadership Team (SLT) have a clear and supportive understanding of the role and purpose of the Audit Committee, with Chief Executive and Director of Resources (s151) meeting with Audit Chair regularly.	
6	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?					5	Yes. This is demonstrated that in early 2022 the former Chair requested that Corporate Risk Owners attended Committee to give an update on the risks and a programme of discussions has since been established. This has proved worthwhile and there was positive feedback from Audit Committee Members.	
7	Does the governing body hold the audit committee to account for its performance at least annually?				3		As earlier, the Annual Report was taken to Cabinet in September 2022 rather than full Council – Consideration is being given to reporting to Full Council following Cabinet.	
8	Does the audit committee publish an annual report in accordance with the 2022 guidance, including:							
	<ul style="list-style-type: none"> <li>Compliance with the CIPFA position statement 2022</li> </ul>					5	<p>The Audit Committee Annual Report 2021/22 (to Sept 2022 Cabinet) included a summary from its own review of effectiveness against the 2018 CIPFA position statement guidance, which was in place at the time.</p> <p>The Annual Report for 2022/23 will include a summary of this latest review of effectiveness, which is against the latest 2022 CIPFA position statement guidance.</p> <p><b>Key consideration</b> – Review wording in next revision of Constitution in relation to 3 &amp; 4 above.</p>	
	<ul style="list-style-type: none"> <li>Results of the annual evaluation, development work undertaken and planned improvements</li> </ul>					5		
	<ul style="list-style-type: none"> <li>How has it fulfilled its terms of reference and the key issues escalated in the year?</li> </ul>					5		

## Functions of the Audit Committee

9	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's position statement as follows:						
	Governance arrangements					5	Adequately set out in NTC Constitution
	Risk management arrangements					5	Adequately set out in NTC Constitution
	Internal control arrangements, including. <ul style="list-style-type: none"> <li>Financial management</li> <li>Value for money</li> <li>Ethics and standards</li> <li>Counter fraud and corruption</li> </ul>				3		<p>Yes, Financial Management is included regarding the financial reports on the accounts. The FM Code is not set out in explicit terms, responsibility is to the leadership team.</p> <p>However, Finance do separately take a report on the FM Code</p> <p><b>Key consideration</b> - Consider amended wording in the ToR to encompass principles of the FM Code, but not make it explicit in case the Code changes.</p>
	Annual governance statement					5	Within Para 24 of the Constitution
	Financial reporting					5	Within Para 32 of the Constitution
	Assurance framework					5	Within Para 7 of the Constitution
	Internal Audit					5	Within Para 13 of the Constitution
	External Audit					5	Within Para 26 of the Constitution
10	Over the last year, has adequate consideration been given to all core areas?				3		The Audit Committee Annual Report 2021/22 (to Sept 2022 Cabinet) included a summary from its own review of

							effectiveness against the prevailing 2018 CIPFA position statement guidance, which was in place at the time. This covered each area.  A specific report on Financial Management code was not provided during 2022/23, but it was covered indirectly in other reports such as the Annual Governance Statement. A specific report is scheduled for 2023/24.
11	Over the last year, has the committee only considered agenda items that align with its core functions, as set out in the 2022 guidance?					5	Yes, but as above the Audit Committee currently approves (rather than “recommend to approve”) financial statements. The financial statements would be provided to AC even if they weren’t approving them. <b>Key Consideration</b> –The Terms of Reference will be updated to reflect that rather than approving the accounts, recommending approval of the accounts would be a core function of the Audit Committee.
12	Has the committee met privately with the external auditors and head of internal audit in the last year?					5	Yes, the Committee met in private with the audit Committee in November 2022, and a further opportunity is scheduled for November 2023. Chair of AC in regular dialogue with Chief Internal Auditor and open offer to meet privately with AC if requested.
<b>Membership and Support</b>							
13	Has the committee been established in accordance with the 2022 guidance as follows?						Effectively, the AC has been established/reviewed to meet the 2018 Guidance.
	• Separation from executive					5	Yes, the Audit Committee is a politically balanced committee of full Council.
	• A size that is not unwieldy and avoids use of substitutes					5	CIPFA position statement recommendation for local authorities is no more than eight

							members. The committee's current membership is seven elected members, and two co-opted independent members that fulfil the roles of Chair and Deputy Chair.
	<ul style="list-style-type: none"> <li>Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation.</li> </ul>					5	Two co-opted independent members that fulfil the roles of Chair and Deputy Chair
14	Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?				3		<p>The positions of co-opted Chair and Deputy Chair have a role definition, person specification, and qualifying criteria, and both appointments made after assessment of that criteria. They are independent co-opted members. The roles were publicly advertised, and competitive interviews held.</p> <p>In terms of voting members, they are selected from current serving elected members and the correct political balance is maintained. Currently the membership is experienced, with several members longstanding or with previous Audit Committee experience.</p> <p>The membership of the Audit Committee is a political decision, but the membership is a mix of new and experienced elected Members. The Authority does provide support and training to assist any members unfamiliar with the Audit Committee.</p>
15	Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?					5	There has been consideration of knowledge and skills in previous assessments, and an e-form skills and knowledge assessment completed for this annual review.

16	Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?					5	<p>Training on audit committee arrangements is provided to all members in advance of attendance at their first meeting. A training session was held in May 2022 in advance of the Committee meeting. One member was unable to attend so a separate briefing was provided. One member requested additional training and a more in depth in discussion was held.</p> <p>CIA and Group Assurance manager investigation on-line training for end 2023 with the Organisational Development team.</p>
17	Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?					5	<p>Chair and Deputy Chair are experienced in matters of audit and governance, and many members are experienced committee members.</p> <p>The results of the skills matrix e-questionnaire showed an average of 3.1 out of a maximum 4 (77.5%), so a good average combined skill set.</p>
18	Is adequate secretariat and administrative support provided to the committee?					5	Experienced and comprehensive committee support is being provided.
19	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?					5	Committee has good working relationships and is guided by an experienced Audit Committee Chair. The Committee has asked for key risk officers to attend each meeting.
<b>Effectiveness of the Committee</b>							
20	Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?					5	An Annual Report from Audit Committee, including a summary of work completed in year, was presented to Cabinet in September 2022. This provided Cabinet

							<p>with the opportunity to offer feedback on the work and performance of the Audit Committee. The report was 'noted' by Cabinet and minutes of the meeting recorded the following as the reason for doing so:</p> <p>"Reason for decision: Noting the Audit Committee Annual Report 2021/22 will demonstrate that Cabinet has received and considered the outcomes of the Audit Committee's review of its own effectiveness, which is good practice recommended by CIPFA; and will help to ensure that Cabinet is aware of the main governance matters which have been considered by Audit Committee in 2021/22."</p> <p>In addition, it was also recorded in the minutes that:</p> <p>"The Elected Mayor thanked Mr Wilkinson for attending Cabinet on behalf of the Audit Committee to present the Audit Committee's Annual Report 2021/22 and thanked him for the important work undertaken."</p>
21	Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?					5	Malcolm Wilkinson is an experienced Chair, having previously been Deputy Chair, and has extensive experience of audit and local government.
22	Are meetings effective with a good level of discussion and engagement from all the members?					5	Meetings are quorate and exhibit good levels of engagement, for example requesting risk owners to attend.
23	Has the committee maintained a non-political approach to discussions throughout?					5	Yes
24	Does the committee engage with a wide range of leaders and managers, including					5	Yes, as necessary and required. Chair has regular meetings with Chief Executive, Chief

	discussion of audit findings, risks and action plans with the responsible officers?						Finance Officer and Chief Internal Auditor. A programme of discussions on risks has been established, with corporate risk owners from SLT attending meetings to discuss their risk.
25	Does the committee make recommendations for the improvement of governance, risk and control arrangements?					5	This has not been required as yet, but the option is available if needed.
26	Do audit committee recommendations have traction with those in leadership roles?					5	Yes, Chief Executive and Director of Resources (S151 officer) regularly engage and discuss with Audit Committee Chair.
27	Has the committee evaluated whether and how it is adding value to the organisation?					5	Yes, through completion of the Annual Report from the Audit Committee.
28	Does the committee have an action plan to improve any areas of weakness?					5	Through this annual assessment and reporting through the Annual Report
29	Has this assessment been undertaken collaboratively with the audit committee members?				3		This assessment has been subject to input from Audit Committee members meeting with the Chair, Chief Internal Auditor and Group Assurance Manager to discuss the roles, skillsets and responsibilities set out in the CIPFA 2022 Guidance. Can improve score further by input from all members.
	<b>Subtotal Score</b>	0	0	0	27	155	
	<b>Total Score</b> (max score is 200 – 40 questions multiplied by 5)	<b>182</b>					