

North Tyneside Council

Report to Audit Committee

Date: 27 March 2024

Title: 2023/24 Review of Audit Committee Effectiveness

Report from Service Area: Resources

Report Author: Ian Pattison, Head of Assurance and Risk (Tel: 643 5738)
(Chief Internal Auditor)

Wards affected: All

PART 1

1.1 Purpose:

The purpose of this report is to support Audit Committee to complete its annual review of effectiveness.

1.2 Recommendation(s):

It is recommended that Audit Committee:

- (a) Consider, comment upon and endorse the self-assessment of effectiveness of Audit Committee attached as **Appendix A**.
- (b) Agree the self-assessment forms the basis of the Audit Committee Annual Report for 2023/24 from Audit Committee and agree the Chair of Audit Committee compiles the annual report for presentation to Cabinet.

1.3 Council plan and policy framework

- 1.3.1 Audit Committee is a key component of the Authority's governance framework. Its purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring that there is sufficient assurance over governance risk and control gives

greater confidence to all those charged with governance that those arrangements are effective. As such, the work of Audit Committee has a remit across all priorities within the 'Our North Tyneside Plan' and the policy framework.

1.4 Information

- 1.4.1 Audit Committees – Practical Guidance for Local Authorities and Police, last updated and published in October 2022 by the Chartered Institute of Public Finance and Accountancy (CIPFA), sets out good practice guidance covering the role, functions, and operation of Audit Committees and includes a template for self-assessment against good practice. CIPFA Position Statement on Audit Committees in Local Authorities and Police 2022 sets out the principles CIPFA recommend committees operating in local government follow.
- 1.4.2 The CIPFA Position Statement recommends the committee's annual report should include the results of a performance assessment in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 1.4.3 The Terms of Reference for Audit Committee, set out within the Constitution, requires Audit Committee:
- *To report to the Authority on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.*
 - *To publish an annual report on the work of the Committee.*
- 1.4.4 An assessment of Audit Committee arrangements against the CIPFA good practice was conducted by the Chair of Audit Committee in early 2023 and included engagement with the elected members of Audit Committee and senior officers. This was reported to Audit Committee in March 2023 and a number of areas for potential development were identified.
- 1.4.5 The Chair of Audit Committee, in conjunction with senior officers, has undertaken a further review of effectiveness which builds upon the previous self-assessment and considers the operation of Committee since the last review. The detailed review is attached as **Appendix A**.
- 1.4.6 The outcome of this review is consistent with that completed in March 2023 and the same matters for consideration have been identified and can be summarised as follows:

- 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. There is no readily available alternative within the existing Committee structure and possible options are being explored by officers. However, in the short term it is accepted that this responsibility will remain with Audit Committee.
- The Audit Committee's annual report is currently presented to Cabinet, whereas recommended best practice is that the Audit Committee report to full Council as the body charged with governance. This matter is being considered as part of the annual review of the Constitution.

1.4.5 Based upon this self-assessment, subject to endorsement by the Audit Committee, the Committee is deemed to be operating effectively with a good level of performance against the recommended practice.

1.5 Decision Options:

Option 1

The Audit Committee can agree to endorse the recommendations as set out in Section 1.2 of this report.

Option 2

The Audit Committee can decline to endorse the outcome of the self-assessment and request a new assessment is completed.

1.6 Reasons for recommended option:

The recommended option will allow the Audit Committee to comply with recommended good practice and fulfil its terms of reference.

1.7 Appendices:

Appendix A: Self-assessment of Good Practice (March 2024) – from CIPFA, Audit Committees, Practical Guidance for Local Authorities and Police, published October 2022

1.8 Contact officers:

Ian Pattison, Head of Assurance and Risk (Chief Internal Auditor) – Tel 643 5738
Marc Oldham, 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 27, May 2023 (P)
- (c) Review of Audit Committee Arrangements, Report to Audit Committee, 22 March 2023 (P)
- (d) The 'Our North Tyneside' Council Plan 2021-2025, 2021 (P)
- (e) Audit Committee Annual Report 2022/23, October 2023 (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

There are no legal implications arising from this report. However, this report does support the Audit Committee meet best practice requirements within sector guidance, i.e. CIPFA's 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.

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.

2.8 Environment and sustainability

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

Report authors Ian Pattison
Marc Oldham

Audit Committee Arrangements: Self-Assessment of Good Practice (March 2024)

(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	
Audit Committee Purpose and Governance							
1	Does the authority have a dedicated audit committee that is not					5	A dedicated Audit Committee is established and its terms of reference (ToR) within the Constitution clearly

	combined with other functions (e.g., standards, ethics, scrutiny)?						reference its independence. The Committee is not combined with any other functions.
2	Does the Audit Committee report directly to the governing body (full council)				3		<p>The Committee's ToR within the Constitution requires it to <i>'report to the Authority on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose'</i>.</p> <p>In practice the annual report from Audit Committee is presented to Cabinet with the last report being made in November 2023.</p> <p>Matter under consideration Should the annual report be provided to full council instead of / as well as Cabinet? This is being considered as part of the annual review of the Constitution which will be next updated in May 2024.</p>
3	Has the audit committee maintained its advisory role by not taking on any decision-making powers?				3		The Committee operates primarily in an advisory capacity. However, within its ToR– the Committee is required <i>'To review and approve the annual</i>

						<p><u>statement of accounts including any subsequent amendments'</u></p> <p>CIPFA guidance acknowledges that some authorities have delegated decisions such as the approval of the financial statements to the audit committee and this takes the audit committee beyond its advisory role.</p> <p>It should be noted, however, that this is purely best practice, and the Authority is operating within statutory requirements.</p> <p>Our co-opted independent members do not have voting rights and therefore we do not breach Section 13 of the Local Government and Housing Act 1989, i.e. co-opted independent members cannot vote to approve the accounts under the Act.</p> <p>Matter for consideration</p> <p>Should the accounts continue to be approved by Audit Committee? This is being considered as part of the annual review of the Constitution</p>
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							which will be next updated in May 2024.
4	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFAs 2022 Position Statement?				3		<p>The ToR is not explicitly in accordance with the wording of the Position Statement and suggested ToR within the best practice guidance. However, it does reflect the spirit of this and sets a clear purpose.</p> <p>Matter under consideration There is a firm proposal to update the purpose with Audit Committee Terms of Reference to match good practice as part of the annual review of the Constitution which will be next updated in May 2024.</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>The annual report to Cabinet reinforces their understanding around the role and purpose of Committee and provides an opportunity to discuss its work. However, there is currently no direct relationship between Audit Committee and full council who are charged with governance.</p> <p>Senior Leadership Team (SLT) have a clear understanding of the role and</p>

							<p>purpose of the Audit Committee and the key part it plays in our governance arrangements. The Chief Executive and Director of Resources (s151) also meet with the Chair of Audit Committee regularly.</p> <p>Matter for consideration</p> <p>Alongside consideration of where the annual report is presented there are currently discussions with Organisational Development around wider member development. This would be made available to all members through the development programme and will help improve awareness and understanding of the role and purpose of the Audit Committee and the activities it oversees.</p>
6	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?					5	The Committee have access to those in governance and leadership roles and the Chair meets with leadership regularly. There has been no requirement to escalate concerns in the period of the review.
7	Does the governing body hold the audit committee to account for its performance at least annually?				3		As per previous comments it is Cabinet rather than full Council who

							consider the annual report, and this is being considered accordingly.
8	Does the audit committee publish an annual report in accordance with the 2022 guidance, including:						
	<ul style="list-style-type: none"> Compliance with the CIPFA position statement 2022 					5	The Audit Committee Annual Report, last reported to Cabinet in October 2023 and covering 2022/23, includes a summary from its review of effectiveness against best practice including the 2022 CIPFA position statement.
	<ul style="list-style-type: none"> Results of the annual evaluation, development work undertaken and planned improvements 					5	
	<ul style="list-style-type: none"> How has it fulfilled its terms of reference and the key issues escalated in the year? 					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	Yes
	Risk management arrangements					5	Yes
	Internal control arrangements, including. <ul style="list-style-type: none"> Financial management Value for money 				3		No. Financial Management is included but does not explicitly cover compliance with CIPFA Financial Management Code However,

	<ul style="list-style-type: none"> • Ethics and standards • Counter fraud and corruption 						<p>Committee did receive a report on the FM Code in July 2023.</p> <p>Matter under consideration There is a firm proposal to update the purpose with Audit Committee Terms of Reference to match good practice as part of the annual review of the Constitution which will be next updated in May 2024.</p>
	Annual governance statement					5	Yes
	Financial reporting					5	Yes
	Assurance framework					5	Yes
	Internal Audit					5	Yes
	External Audit					5	Yes
10	Over the last year, has adequate consideration been given to all core areas?					5	Yes
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, with the exception of approving accounts covered and considered previously.

12	Has the committee met privately with the external auditors and head of internal audit in the last year?					5	No but there has been no requirement to do so. There is a commitment to meet, and the Committee are aware of the option to privately if required. The Chair is in regular dialogue with Chief Internal Auditor and meets in advance of each Audit Committee.
Membership and Support							
13	Has the committee been established in accordance with the 2022 guidance as follows?						
	<ul style="list-style-type: none"> Separation from executive 					5	Yes. Audit Committee's independence is explicit in its terms of reference, its membership includes independent, co-opted members and elected members are appointed in line with political balance requirements and no Cabinet members appointed.
	<ul style="list-style-type: none"> A size that is not unwieldy and avoids use of substitutes 					5	Membership is seven elected members, and two co-opted independent members that fulfil the roles of Chair and Deputy Chair, broadly in line with CIPFA position statement recommendation Committees have no more than eight members.

							The use of substitutes is infrequent and current make up ensures that meetings are quorate.
	<ul style="list-style-type: none"> Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation. 					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>Appointments to the co-opted Chair and Deputy Chair roles are based upon a person specification reflecting knowledge and skills required for the Audit Committee.</p> <p>Elected members are appointed by the respective political parties and this does not necessarily consider the experience, knowledge and skills required by Committee.</p> <p>The current membership is experienced with several longstanding members and others with previous Audit Committee experience.</p> <p>All new members complete Audit Committee induction training prior to their first meeting and this is refreshed annually.</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	Yes, completed prior to the last review of effectiveness completed in March 2023.
16	Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?					5	<p>Induction training is provided to Committee members in advance of attendance at their first meeting. This is then refreshed on an annual basis.</p> <p>A financial briefing to enhance understanding of the arrangements for compiling the annual accounts and understanding what is contained within these was also completed in year.</p>
17	Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?					5	<p>The Chair and Deputy Chair are experienced professionals with a background in audit and governance. and many members are experienced committee members.</p> <p>The last assessment of knowledge and skills referred to at 15 assessed a satisfactory collective knowledge base.</p>

18	Is adequate secretariat and administrative support provided to the committee?					5	There is dedicated and experienced support provided to the Committee by Democratic Services.
19	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?					5	The Committee has a good working relationship with all parties which is maintained through attendance at committee meetings. Additionally, the Chair of Audit Committee Chair meets regularly with the Chief Executive, Director of Resources (S151 Officer) and Chief Internal Auditor.
Effectiveness of the Committee							
20	Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?					5	The last report Cabinet provided positive feedback with minutes stating: <ul style="list-style-type: none"> • <i>“Reasons for decision: Noting the Audit Committee Annual Report 2022/23 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. Is aware of the main</i>

							<p><i>governance matters which have been considered by Audit Committee in 2022/23 and provides a formal opportunity to feedback to Audit Committee on its work and performance throughout the year.”</i></p> <ul style="list-style-type: none"> • <i>“The Deputy Mayor thanked Mr. Wilkinson for attending Cabinet on behalf of the Audit Committee to present the Audit Committee’s Annual Report 2022/23 and thanked him and the Committee for the important work undertaken.”</i>
21	Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?					5	<p>The Committee has an experienced Chair and focus is maintained on those matters within the terms of reference and the annual work programme.</p> <p>The members of Committee regularly ask questions of officers around the matters arising and gain assurances that required improvements are being made.</p>

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.
23	Has the committee maintained a non-political approach to discussions throughout?					5	Yes. The Chair has not needed to raise any concerns about political neutrality in respect of the business undertaken.
24	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?					5	Yes, as necessary and required. Chair has regular meetings with Chief Executive, Chief 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. This included attendance by the Chief Executive in May 2023, to provide the Audit Committee with his views of the Corporate Risks.
25	Does the committee make recommendations for the improvement of governance, risk and control arrangements?					5	This has not been required as yet, but Audit Committee understand that the option is available if needed.
26	Do audit committee recommendations have traction with those in leadership roles?					5	Yes. As mentioned previously includes implementing the recommended that Corporate Risk Owners discuss their risks with the Audit Committee, and a programme was then established.

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	Yes, through this annual assessment and reporting through the Annual Report.
29	Has this assessment been undertaken collaboratively with the audit committee members?				3		The Chair of Audit Committee has considered this self-assessment reflecting upon the wider ranging review last year and the work undertaken in year. Presentation of this report to Audit Committee allows members to comment and provide feedback on the assessment. Should it be necessary the assessment will be updated to reflect feedback.
	Subtotal Score	0	0	0	24	160	
	Total Score (max score is 200 – 40 questions multiplied by 5)	184					