

# North Tyneside Council Report to Audit Committee Date: 24 July 2019

## ITEM 5

Title: Review of Audit  
Committee Arrangements

Report from Service Area: Resources

Report Author: Allison Mitchell, Chief Internal Auditor (Tel: 643 5720)

Wards affected: All

### PART 1

#### 1.1 Purpose:

The purpose of this report is to:

- (a) Present an initial assessment of current Audit Committee arrangements for North Tyneside Council with reference to 2018 good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), for Audit Committee's consideration;
- (b) Summarise the work previously performed by the Chair of Audit Committee in 2015/16 on reviewing Audit Committee arrangements at that time, and the findings of the Chair from that review, as reported to Audit Committee on 30 March 2016; and
- (c) Highlight those areas where development work should be focused during 2019/20 to ensure that our Audit Committee arrangements reflect all parts of CIPFA's good practice (or that there is a clear rationale for departure from the guidance, if they do not); and to progress any outstanding recommendations made by the Chair of Audit Committee as part of the 2015/16 Review of Audit Committee arrangements, where these recommendations remain relevant and supported by CIPFA's latest guidance.

#### 1.2 Recommendations:

It is recommended that Audit Committee:

- (a) considers and endorses the initial self assessment of our Audit Committee arrangements against the latest good practice guidance recommended by CIPFA, attached as **Annex A**;
- (b) notes that CIPFA have published a revised Position Statement on Audit Committees in Local Authorities, attached as **Annex B**, and that some future changes are likely to be needed to the current Terms of Reference of Audit Committee as set out in the Constitution, to ensure that all aspects of CIPFA's good practice can be reflected;
- (c) notes the detailed review undertaken by the Chair of Audit Committee in 2015/16, and the findings from that review, attached as **Annex C**;
- (d) agrees that the Head of Resources, supported by the Chief Internal Auditor, works with the Chair of Audit Committee to prepare a 2019/20 plan of actions needed to ensure that our Audit Committee arrangements reflect, as far as practicable, CIPFA's good practice guidance and the relevant findings of the 2015/16 review led by the Chair of Audit Committee;

- (e) agrees that this report and the Action Plan recommended at (d) above will form the first phase of a 2019/20 review of the effectiveness of our Audit Committee, with a further report to be brought to Audit Committee in November 2019; and that the views of serving Audit Committee members on the operation of Audit Committee will be sought and included in the November 2019 report.

### 1.3 Council Plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council 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 2018.
- 1.4.2 An initial assessment of our Audit Committee arrangements, against the good practice recommended by CIPFA, is included at **Annex A**. This self assessment demonstrates that:
- (a) our Audit Committee arrangements already reflect a number of the good practice areas recommended by CIPFA. For example:
- independent co-opted members have been recruited to the Audit Committee
  - the Committee has developed good working relationships with key stakeholders
  - a review of how the Committee is adding value has previously been undertaken
  - Committee meetings are effective and demonstrate a good level of discussion and engagement from all members (co-opted and elected)
- (b) there are a number of areas in which more development may be needed to ensure that the good practice recommended by CIPFA is reflected. This includes:
- developing arrangements for regular onward reporting from Audit Committee to 'those charged with governance' within the Authority
  - ensuring that the Terms of Reference for Audit Committee reflect CIPFA's latest Position Statement on Audit Committees in Local Government (this position Statement is included as **Annex B**)
  - working with Audit Committee members to assess whether members feel they have the required knowledge and skills necessary for their role on Audit Committee, and developing a structured training programme if required to address any areas where more knowledge would be welcomed
  - helping the Committee to engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers for implementation of audit recommendations.
- 1.4.3 It should be noted that this analysis reflects the findings of a detailed review of Audit Committee arrangements which was led by the co-opted Chair of Audit Committee in 2015/16. The results of this review were reported to Audit Committee in March 2016 and for completeness, the full report of this review is attached as **Annex C**. The report of the co-opted Chair of Audit Committee highlighted a number of recommended actions covering:

- Audit Committee and Senior Leadership Team interaction
- Audit Committee and Cabinet interaction
- An Audit Committee Member Development Programme
- Involvement of Audit Committee in development of the Audit Committee's work programme
- Attendance at Audit Committee meetings
- Merging of Audit Committee functions
- Time of Audit Committee meetings
- Terms of Reference

Progress has been made in some areas, but more work is likely to be needed to fully implement all recommendations from the earlier review led by the Chair of Audit Committee and to ensure that all good practice arrangements (from both the 2018 analysis and earlier review led by the Chair) become fully embedded.

- 1.4.4 It is therefore recommended that the outcomes of the analysis detailed above form the basis for development of an Action Plan for 2019/20, and that this work is progressed by the Head of Resources (supported by the Chief Internal Auditor) and co-opted Chair of Audit Committee with a further report brought before Audit Committee in November 2019.
- 1.4.5 It is also proposed that this work forms the basis of a review of Audit Committee effectiveness 2019/20, with wider engagement with Audit Committee members on their views being sought and included in the further report to be presented to Audit Committee in November 2019.

## **1.5 Decision Options:**

It is recommended that Audit Committee notes and endorses the initial assessment of current arrangements against CIPFA good practice guidance, and the outcomes from the earlier detailed review led by the co-opted Chair of Audit Committee; agrees that an Action Plan is developed to ensure that CIPFA's good practice guidance is reflected as far as possible, during the remainder of 2019/20; and that this work forms the basis for a review of Audit Committee effectiveness, with further views sought from Audit Committee members prior to November 2019, with a further progress report brought before Audit Committee in November 2019.

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

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

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

## **1.7 Appendices:**

- Annex A:** Initial Self Assessment of Good Practice (July 2019) – from CIPFA, Audit Committees, Practical Guidance for Local Authorities and Police, published 2018
- Annex B:** CIPFA Position Statement: Audit Committees in Local Authorities and Police
- Annex C:** Report to Audit Committee – Review of Audit Committee Arrangements, 30 March 2016

## **1.8 Contact officers:**

Allison Mitchell (Chief Internal Auditor) Tel 643 5720  
Kevin McDonald (Group Assurance Manager) Tel 643 5738

## **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, 2018 (P)
- (b) North Tyneside Council Constitution (P)
- (c) Review of Audit Committee Arrangements, Report to Audit Committee, 30 March 2016
- (d) Audit Committee Annual Report 2016/17, Report to Cabinet 10 July 2017; and Appendix
- (e) The 'Our North Tyneside' Council Plan 2018/21,2018 (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 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police".

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

The analysis against CIPFA's good practice guidance, taken from the 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police", 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 will be identified as progress is made on the implementation of the recommended actions included within the report. Risks and opportunities identified will be managed in accordance with the Authority's established risk management processes.

## **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**     Allison Mitchell

**Audit Committee Arrangements: Initial Self Assessment of Good Practice (July 2019)**

(taken from CIPFA, *Audit Committees, Practical Guidance for Local Authorities and Police*, published 2018)

CIPFA states that this checklist provides a high level review that incorporates the key principles set out in CIPFA's Position Statement on Audit Committees in Local Authorities, and the wider *Practical Guidance* publication referred to above. CIPFA states:

*“Where an audit committee has a high degree of performance against the good practice principles, then 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 can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.”*

Good practice questions	Yes	Partly	No	Comments
<b>Audit Committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?	✓		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).
2	Does the audit committee report directly to full council? (Applicable to local government only.)		✓	<p>No. There is a general provision in the Constitution that allows any committee of the Council to report matters up to full Council. The work programme of the Audit Committee does not however currently include this as a routine report.</p> <p>An initial report (covering 2016/17) from the Chair of Audit Committee to Cabinet was prepared and presented to Cabinet in July 2017. The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that the Audit Committee should report regularly on its work to those charged with governance, and at least annually report an assessment of its performance. CIPFA comments that an annual public report should demonstrate how the Committee has discharged its responsibilities.</p>

Good practice questions		Yes	Partly	No	Comments
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✓		<p>The Audit Committee's Terms of Reference, included in the Constitution, preceded CIPFA's updated guidance in 2018 on this matter. The Terms of Reference / Constitution therefore need to be updated to reflect CIPFA's latest guidance / wording on the purpose of the Audit Committee.</p> <p>It is proposed that officers work with Audit Committee during 2019/20 to compare existing Terms of Reference with CIPFA's Position Statement on Audit Committees in Local Authorities, and to develop a new Terms of Reference for suggested inclusion at the next review of the Authority's Constitution.</p>
4	Is the role and purpose of the audit committee understood and accepted across the authority?		✓		<p>This was examined in some detail by the Chair of Audit Committee as part of the review in 2015/16, when discussion with members and officers demonstrated that the understanding of role and purpose was variable across the Authority at that time. It is likely that the 2015/16 review, and reporting to Cabinet in July 2017, will have helped to address this. However a programme of communication and awareness raising with senior officers and appropriate elected members may be an option for the Authority to consider.</p>
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			<p>Members of Audit Committee are diligent in their reading of reports and this is reflected in debate within the Committee meeting itself. A range of appropriate and challenging questions are asked by Committee members to report authors. In addition the Annual Governance Statement is reviewed by the Committee each year.</p>

Good practice questions		Yes	Partly	No	Comments
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓		See question 2 above. An initial, detailed review of Audit Committee effectiveness was led by the Chair of Audit Committee in 2015/16. The results of the review and recommendations were codified in a report to Audit Committee in March 2016. A report to Cabinet in July 2017 was the first Audit Committee Annual Report, covering the work performed by the Committee during 2016/17, but further annual reports have not been prepared. It is recommended that Audit Committee consider this as part of the review of effectiveness in 2019/20.

### Functions of the committee

7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				As set out above (question 3), the current Terms of Reference require some updating to ensure that these are wholly reflective of the most up to date CIPFA guidance. It is recommended that this work takes places during the 2019/20 year.
	<ul style="list-style-type: none"> <li>▪ good governance</li> </ul>		✓		
	<ul style="list-style-type: none"> <li>▪ assurance framework, including partnerships and collaboration arrangements</li> </ul>		✓		The current terms of reference make reference to the assurance framework or its component parts, but do not explicitly address partnerships and collaboration arrangements.
	<ul style="list-style-type: none"> <li>▪ internal audit</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ external audit</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ financial reporting</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ risk management</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ value for money or best value</li> </ul>			✓	
	<ul style="list-style-type: none"> <li>▪ counter-fraud and corruption.</li> </ul>		✓		
	<ul style="list-style-type: none"> <li>▪ supporting the ethical framework</li> </ul>			✓	

Good practice questions		Yes	Partly	No	Comments
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?		✓		See questions 2 and 6 above. A detailed review, led by the Chair of Audit Committee, was undertaken in 2015/16 and presented to Audit Committee in March 2016. This was followed by an Annual Report from Audit Committee to Cabinet in July 2017 (covering 2016/17). Annual evaluations have not subsequently taken place. It is recommended that this is reviewed by Audit Committee as part of this report and the 2019/20 review of Audit Committee effectiveness.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		Again, these areas hint at a broader relationship with other committees and senior officers of the council, which the 2015/16 review suggested could be examined further with a view to establishing more effective links with Senior Leadership Team, Cabinet and potentially other committees. For example, one 'wider area' identified by CIPFA is 'considering governance, risk or control matters at the request of other committees or statutory officers'. The 2015/16 review suggested that awareness of the possible role of Audit Committee here is probably not well developed and this could form an area of focus in the effectiveness review of 2019/20.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		✓		See questions 3 and 7 above. The current Terms of Reference require some updating to ensure that these are wholly reflective of the core areas identified in CIPFA's Position Statement. It is recommended that this work takes places during the 2019/20 year.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			

Good practice questions		Yes	Partly	No	Comments
<b>Membership and support</b>					
12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
	▪ separation from the executive	✓			
	▪ an appropriate mix of knowledge and skills among the membership	✓			
	▪ a size of committee that is not unwieldy	✓			
	▪ Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).	✓			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or as appropriate for the organisation?	✓			Yes. The positions of co-opted Chair and Deputy Chair have a role definition, person specification, and qualifying criteria. The roles were advertised in local publications and on the internet in 2013. Appointments to the roles were made by means of competitive interview. The tenure of the postholders has been extended only with the express approval of full Council, as required by the Constitution.
14	Does the chair of the committee have appropriate knowledge and skills?	✓			The Chair of Audit Committee has extensive audit experience (as both a practitioner and recipient of audit services) and occupied a very senior role in the Financial Services sector before taking on the role of Chair of Audit Committee.
15	Are arrangements in place to support the committee with briefings and training?		✓		This was suggested as an area for further development as part of the previous 2015/16 review of effectiveness. Helen McMahon (Workforce Corporate Development Lead, HR) is co-ordinating an initial training session for Audit Committee early in 2019/20.  It may be beneficial to develop a suitable programme of training and to consider how this would best be delivered, and by whom.

Good practice questions		Yes	Partly	No	Comments
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓	The latest CIPFA guidance on Audit Committees in Local Authorities (2018) includes a 'core knowledge and skills' framework' for Audit Committee members. This can be used to guide members in assessing any training needs and to evaluate the overall knowledge and skills of the Committee.
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
18	Is adequate secretariat and administrative support to the committee provided?	✓			

#### Effectiveness of the committee

19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓		Undertaken as part of the 2015/16 review of audit committee effectiveness, but not subsequently.
20	Are meetings effective with a good level of discussion and engagement from all the members?	✓			
21	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?			✓	Audit Committee is not routinely attended by a wide range of leaders and managers. This was a point raised by the Chair of Audit Committee in 2015/16 and it may be worthwhile to revisit this during the 2019/20 effectiveness review.

Good practice questions		Yes	Partly	No	Comments
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			✓	No such recommendations made to date.
23	Has the committee evaluated whether and how it is adding value to the organisation?		✓		Undertaken as part of the 2015/16 review of audit committee effectiveness.
24	Does the committee have an action plan to improve any areas of weakness?		✓		Recommended actions were set out in the March 2016 report which documented the 2015/16 review.
25	Does the committee publish an annual report to account for its performance and explain its work?		✓		See above (question 6)

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

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
  - act as the principal non-executive, advisory function supporting those charged with governance
  - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
  - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
  - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
  - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
  - be satisfied that the authority's assurance 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
  - in relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework
  - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
  - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
  - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
  - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.

- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
  - working with local standards and ethics committees to support ethical values
  - reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)
  - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
  - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
  - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities 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
  - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
  - unbiased attitudes – treating auditors, the executive and management fairly
  - the ability to challenge the executive and senior managers when required.
- 7 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 CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
  - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
  - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities

# North Tyneside Council

## Report to Audit Committee

### Date: 30 March 2016

#### ITEM #

Title: Review of Audit  
Committee Arrangements

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Report from Service Area:	Commissioning and Investment	
Report Author:	Allison Mitchell, Chief Internal Auditor	(Tel: 643 5720)
Wards affected:	All	

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## PART 1

### 1.1 Purpose:

This report summarises the outcomes from engagement undertaken by the Chair of Audit Committee with a variety of stakeholders of the Audit Committee, and guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) regarding audit committees. The report evaluates our own Audit Committee arrangements in the context of CIPFA's published guidance; the views of elected members, Senior Leadership Team and the External Auditor; and also good practice identified elsewhere.

The report concludes that the Audit Committee is a valuable assurance resource for the organisation, but that more could be done to develop this and link the work of the committee to the wider organisation (in particular, the Senior Leadership Team and Cabinet). The report recommends that its findings are developed further into an action plan, involving members of Audit Committee and other key stakeholders, with the Head of Commissioning and Investment as sponsor for this work.

### 1.2 Recommendation(s):

It is recommended that Audit Committee:

- (a) considers and endorses the report of the Co-opted Chair of Audit Committee, attached as **Appendix A**;
- (b) agrees that the recommended actions set out by the Chair of Audit Committee in section 4 of the report are progressed, with Mark Longstaff (Head of Commissioning and Investment) as Senior Leadership team sponsor for this work; and
- (c) agrees that any changes to the Audit Committee's Terms of Reference necessary to reflect CIPFA's Audit Committee Position Statement are recommended for adoption to full Council, as part of the next review of the Constitution.

### 1.3 Council plan and policy framework

The work of the Audit Committee covers all service responsibilities as identified within the Council Plan.

## 1.4 Information

- 1.4.1 As has been discussed at meetings of Audit Committee previously in 2015/16, it is considered to be good practice for audit committees to regularly assess their own effectiveness. CIPFA has produced guidance which local authorities can use to structure such reviews of effectiveness.
- 1.4.2 A review of our current Audit Committee arrangements has been undertaken, led by the co-opted Chair of Audit Committee. As well as considering CIPFA's published guidance, the Chair of Audit Committee has taken the opportunity to engage widely with a number of stakeholders of the Audit Committee and its work. Examples of good practice within audit committees within local government and other sectors have also been sought, and the arrangements for our own Audit Committee compared.
- 1.4.3 The outcomes from the Chair of Audit Committee's initial review are summarised in the report attached as **Appendix A**. In summary, the report recognises the valuable contribution that the work of the Audit Committee makes to the effective running of the organisation, but highlights a number of areas where its effectiveness could be enhanced. In particular, the Chair of Audit Committee recommends that greater links between the Audit Committee, Senior Leadership Team and Cabinet are developed, alongside a range of additional improvements.

## 1.5 Decision Options:

It is recommended that the Audit Committee considers and endorses the report of the Chair of Audit Committee, attached as **Appendix A**, and agrees that the recommended actions contained therein are progressed with the Head of Commissioning and Investment.

## 1.6 Reasons for recommended option:

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

## 1.7 Appendices:

**Appendix A:** Review of Audit Committee Arrangements – Report of the Co-opted Chair of Audit Committee (March 2016)

## 1.8 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, 2013 (P)
- (b) Public Sector Internal Audit Standards, CIPFA / Institute of Internal Auditors, December 2012 (P)
- (c) Local Government Application Note for the UK Public Sector Internal Audit Standards, CIPFA / Institute of Internal Auditors, April 2013 (P)
- (d) [North Tyneside Council Constitution \(P\)](#)
- (e) [Financial Regulations C24 - C35, version 5a, September 2013 \(P\)](#)
- (f) [The Accounts and Audit Regulations 2015, April 2015 \(P\)](#)
- (g) [The 'Our North Tyneside' Council Plan 2014/18, September 2013 \(P\)](#)

- (h) ['Creating a Brighter Future Programme', April 2014 \(P\)](#)
- (i) Target Operating Model, 2015 (C)

## **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.

### **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 2013 publication "Audit Committees – Practical Guidance for Local Authorities and Police".

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

The Chair of Audit Committee has engaged extensively with a range of Audit Committee stakeholders. Consultation has included serving elected members of the committee, the Cabinet member for Finance and Resources, Chief Executive and Deputy Chief Executive, Heads of Service and Senior Leadership Team, senior managers, and the External Auditor. A complete list is included in Annex A of the Chair of Audit Committee's report attached.

### **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 will be identified as progress is made on the implementation of the recommended actions included within the report. Risks and opportunities identified will be managed in accordance with the Authority's established risk management processes.

### **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** Allison Mitchell

# **Review of Audit Committee Arrangements**

**Report of the Co-opted Chair of Audit  
Committee**

**March 2016**



## **1 Introduction**

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that the Audit Committee should regularly assess its own effectiveness, and has produced guidance which local authority audit committees can utilise for this purpose. CIPFA outlines the aim of such a review to be so that the Audit Committee itself can:

- Assess the adequacy of its terms of reference, work plans, forums of discussion and communication; and
- Identify areas where the committee and its processes might be more effective, or where there are skills and / or knowledge gaps.

## **2 Work Undertaken**

2.1 As discussed at the meeting of Audit Committee in November 2015, to initiate such a review, the Chair of Audit Committee and Chief Internal Auditor have sought to meet with a number of key stakeholders (including current Audit Committee members). A number of discussions have taken place (referenced in **Annex A**) with elected members, the Chief Executive, Deputy Chief Executive, Heads of Service / Senior Leadership Team, relevant senior managers and External Auditor. These conversations have been helpful in obtaining information and gauging views and perceptions on our current audit committee arrangements.

2.2 CIPFA has also prepared a guidance document, which includes a series of checklists in order to help local authority audit committees structure their reviews of effectiveness. These checklists centre around a position statement, contained within the guidance, which CIPFA recommends is the foundation for any Audit Committee arrangements. In addition to engaging with key stakeholders, as described above, for completeness CIPFA's main checklist has been completed and is attached as **Annex B**. Examples of good practice in Audit Committee arrangements in other organisations have also been sought and examined.

2.3 The main outcomes from the discussions held and work undertaken as part of the review are summarised below.

## **3 Summary of Key Outcomes**

3.1 The Audit Committee has the potential to be a real 'force for good' in North Tyneside Council. It is uniquely placed to provide an assurance overview, drawing from the whole range of activities that the Authority is engaged in, and all outcomes which the Council hopes to deliver for the people of North Tyneside. The Audit Committee is a source of constructive challenge on where the organisation is maximising opportunities, and where there is scope to manage risks more effectively.

3.2 However, at present the Committee seems to exist in isolation – it is not sufficiently connected to the Senior Leadership Team, as the management board of the organisation; nor does it have any links to Cabinet, or to other

committees. As such, the Audit Committee has inputs but no measurable outputs or outcomes, and this hampers both its effectiveness and its status / profile and influence within the Authority.

- 3.3 Attendance at the Committee, both from those elected members who serve on the Committee and senior officers, has been variable. Elected members attending the Audit Committee are clearly very knowledgeable and the Committee has engaged in intelligent debate on a number of key governance matters. It is to the credit of the members on the Committee that this debate has transcended any political discussion. However, quorum has been an issue and there are times when meetings have needed to be cancelled and rearranged, or cut short, as insufficient members have been in attendance (or unable to stay for the duration of the meeting). Currently no substitute members are allowed. Whilst some officers have attended the committee, it has not always been clear as to their role.
- 3.4 The reports prepared by Internal Audit, and support of the Committee by the Internal Audit team, have been the main source of information and support to the Audit Committee (and in particular, to the co-opted Chair and Deputy Chair) to date. The work is professional, of a consistently high standard and welcomed by the Committee; but the Committee would benefit from a greater variety of input from a range of other contributors throughout the year.
- 3.5 The Audit Committee's Terms of Reference broadly reflect the professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and it is positive that a work programme (reflecting the Terms of Reference) is prepared and agreed in advance of each municipal year. However, it is suggested that greater engagement could be effected if the Senior Leadership Team, Cabinet and Audit Committee members had more say in the topics to be considered at the commencement of, and during, each year; and if there was scope to commission work or studies by the Audit Committee. A sub-group of Audit Committee members, supported by officers as appropriate, would seem to be an effective way of managing the delivery of such commissioned studies.
- 3.6 There is also scope to widen the role of the Audit Committee – for example, to explore whether the committee could take on more of a role by becoming 'those charged with governance'. In the context of the accounts, this would allow the Audit Committee to discharge functions currently performed in what may be a more unwieldy environment of a full council meeting.

#### **4 Recommended Actions**

- 4.1 It is suggested that the following matters should form the basis for a development plan for the Audit Committee within North Tyneside.
  - Senior Leadership Team: Greater interaction between the Chair of Audit Committee, and wider Audit Committee, with the Senior Leadership Team.

- Cabinet: Greater interaction at the commencement of each municipal year between Audit Committee and Cabinet, regarding the Audit Committee's work programme; and an annual report from Audit Committee to Cabinet.
- Member Development Programme: A development programme for Audit Committee members, but also for non-members of Audit Committee to raise awareness on what the Committee's role is, and its remit. This should involve the Senior Leadership Team and both Internal and External Audit.
- Work Programme: Greater involvement of Audit Committee members in agreeing the work programme for the Committee. This should help to secure a greater level of engagement and make the subject matters covered by the Committee more 'live' to those involved in the debate.
- Attendance at Audit Committee Meetings: Attendance by appropriate Senior Leadership Team members at the Committee – for example, it would send a clear message on the importance of corporate governance if the Chief Executive was to attend the Audit Committee when the Annual Governance Statement is considered; and if there was appropriate attendance from Heads of Service at every Audit Committee meeting (for example, risk owners). It would also improve the scope for debate and challenge on key risk matters if the Cabinet member risk owner was present, on a rolling basis, for consideration of key risks.
- Merging of Audit Committee functions: Suggestions have been made regarding merging the functions of the Audit Committee with other bodies, such as the Finance Sub Committee, Standards Committee or Cabinet (as was the case with the forerunner to the Audit Committee, the Audit Panel). All suggestions are contrary to CIPFA's recommended practice. Any merging of the Audit Committee functions with those of other committees may impede on the independence which the Audit Committee is required to have to work effectively and fulfil its role. Any efficiencies to be gained are likely to be minimal and hence this is not a recommended way forward at the current time.
- Time of Audit Committee meetings: some consideration should be given as to whether the current timeslot (6pm) optimises the effectiveness of the Committee. It may be that a time during the day would allow both members and officers to contribute more effectively – though views on this matter were mixed when contributions from elected members were sought.
- Terms of Reference: The self-assessment against CIPFA's 'Audit Committee Checklist' (**Annex B**) demonstrates, overall, a good fit with the principles contained within CIPFA's published Position Statement on such matters. There are some areas where slight changes to the Committee's Terms of Reference would demonstrate a better fit with CIPFA's Audit Committee position statement. It is recommended that these are considered for proposal to full Council as part of the next review of the Constitution.

## **5 Conclusion**

- 5.1 The Audit Committee is a valuable resource to North Tyneside Council. Aspects of our current Audit Committee arrangements work well, and are helpful to the organisation. However, the views sought from stakeholders of the Committee, and comparison with good practice identified elsewhere, suggest that the Audit Committee can now be positioned to better support the organisation as it continues to deliver in a period of increasing austerity and delivering its services in very different ways.
- 5.2 The fundamental recommendation from this review is that the Audit Committee as a dedicated body should be better linked to the wider organisation – principally the Senior Leadership Team and Cabinet – as well as engaging more effectively with the elected members who serve on the committee. This will help us to focus the committee’s resources on providing a vital assurance link for the organisation. The Audit Committee is well placed to support North Tyneside Council by constructively, but comprehensively, challenging what it is that the authority is delivering for its residents, businesses and all those who live or work within the borough.
- 5.3 It is recommended that the ‘Recommended Actions’ outlined above are now taken forward, involving Audit Committee members and Heads of Service throughout the organisation as appropriate, with Mark Longstaff (Head of Commissioning and Investment) as Senior Leadership Team sponsor. This will help us to work with our stakeholders, including all Audit Committee members, to develop the Audit Committee further. In this way, it can become a more engaged and greater assurance resource for the Authority.

## Acknowledgments

All current Audit Committee elected members, a range of officers, our own external auditor and those of neighbouring organisations were invited to discuss our review of audit committee effectiveness and provide comment or suggestions as appropriate. The Chair of Audit Committee would like to thank the following who either met directly with him, or provided comments and views via the Chief Internal Auditor.

### **Current Audit Committee elected members:**

Cllr Gary Bell  
Cllr McGarr  
Cllr McMullen  
Cllr O'Shea  
Cllr Rankin

### **Cabinet:**

Cllr Ray Glindon, Cabinet Member for Finance and Resources

### **External Audit:**

Gareth Davies (Mazars)  
Diane Harold (Mazars)  
Caroline Mulley (Ernst and Young – through our shared service arrangement)  
Paul Thomson (Deloitte – through our shared service arrangement)

### **Officers:**

Patrick Melia, Chief Executive  
Paul Hanson, Deputy Chief Executive  
Lisa Clark, Head of Commercial and Business Redesign  
Janice Gillespie, Head of Finance (Section 151 Officer)  
Mark Longstaff, Head of Commissioning and Investment  
Phil Scott, Head of Environment, Housing and Leisure  
Dave Brown, Manager: Democratic Services  
Helen Davidson, Workforce Development Lead HR (Corporate)

### **Other organisations with whom we compared arrangements:**

Newcastle City Council  
Northumberland County Council  
Sunderland City Council  
Northumbria Police and Crime Commissioner  
Suffolk Police and Crime Commissioner  
Health and Care Professions Council  
NHS Newcastle Gateshead Clinical Commissioning Group (CCG)

**Reviewing the Effectiveness of the Audit Committee:  
Self-Assessment of Good Practice – February 2016**

This checklist provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. Where an audit committee has a high degree of performance against the good practice principles then 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 can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No	Comments
<b>Audit Committee purpose and governance</b>					
1	Does the authority have a dedicated audit committee?	✓			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).
2	Does the audit committee report directly to full council? (Applicable to local government only.)		✓		There is a general provision in the Constitution that allows any committee of the Council to report matters up to full Council. The work programme of the Audit Committee does not however currently include this as a routine report.
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✓		The Audit Committee's Terms of Reference, included in the Constitution, preceded CIPFA's updated guidance on this matter. The Terms of Reference / Constitution therefore need to be updated to reflect CIPFA's latest guidance / wording on the purpose of the Audit Committee.
4	Is the role and purpose of the audit committee understood and accepted across the authority?		✓		Discussion with elected members and officers as part of this 2015/16 review, has demonstrated that the understanding of role and purpose is variable across the Authority.

Good practice questions		Yes	Partly	No	Comments
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓		The recent review of Audit Committee effectiveness is the first stage in this process.

### Functions of the committee

7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				As set out above, the current Terms of Reference require some updating to ensure that these are reflective of the most up to date CIPFA guidance; but the changes required are mostly cosmetic in the areas designated as 'partly' below.
	<ul style="list-style-type: none"> <li>▪ good governance</li> </ul>		✓		
	<ul style="list-style-type: none"> <li>▪ assurance framework</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ internal audit</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ external audit</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ financial reporting</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ risk management</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ value for money or best value</li> </ul>		✓		
	<ul style="list-style-type: none"> <li>▪ counter-fraud and corruption.</li> </ul>	✓			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?		✓		This has been undertaken for the first time as part of the 2015/16 review of effectiveness of the Audit Committee.

Good practice questions		Yes	Partly	No	Comments
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		Again, these areas hint at a broader relationship with other committees and senior officers of the council, which our review has suggested could be examined further with a view to establishing more effective links with Senior Leadership Team, Cabinet and potentially other committees. For example, one 'wider area' identified by CIPFA is 'considering governance, risk or control matters at the request of other committees or statutory officers', but the 2015/16 review suggests that awareness of the possible role of Audit Committee here is probably not well developed.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		✓		All 'core areas' are already covered by the Audit Committee. One area in which we may wish to enhance the Audit Committee's role relates to it receiving reports from 'other inspection agencies', which does not currently happen.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			

### Membership and support

12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
	▪ separation from the executive	✓			
	▪ an appropriate mix of knowledge and skills among the membership	✓			
	▪ a size of committee that is not unwieldy	✓			
	▪ where independent members are used, that they have been appointed using an appropriate process.	✓			

Good practice questions		Yes	Partly	No	Comments
13	Does the chair of the committee have appropriate knowledge and skills?	✓			
14	Are arrangements in place to support the committee with briefings and training?		✓		This has been suggested as an area for further development as part of the 2015/16 review of effectiveness, and has been broached with Helen Davidson (Workforce Corporate Development Lead, HR).
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓		See above – discussed with Helen Davidson – and suggest is progressed further following consideration of the outcomes of the 2015/16 review of audit committee effectiveness with Audit Committee.
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
17	Is adequate secretariat and administrative support to the committee provided?	✓			

#### **Effectiveness of the committee**

18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓			Undertaken as part of the 2015/16 review of audit committee effectiveness.
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓			Undertaken as part of the 2015/16 review of audit committee effectiveness.
20	Does the committee have an action plan to improve any areas of weakness?	✓			Recommended actions are set out in the report documenting the review.