

North Tyneside Council Report to Audit Committee Date: 24 March 2021

ITEM 8

Title: Review of Audit
Committee Effectiveness

Report from Service Area:	Resources
Report Author:	Kevin McDonald, Acting Chief Internal Auditor (Tel: 643 5738)
Wards affected:	All

PART 1

1.1 Purpose:

The purpose of this report is to present a self-assessment of Audit Committee arrangements, following the review of Audit Committee arrangements undertaken during 2019/20, undertaken with reference to the good practice recommended 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 our Audit Committee arrangements against the good practice guidance recommended by CIPFA, attached as **Annex A**;
- (b) notes the actions taken since the previous review of Audit Committee arrangements during 2019/20 to help ensure that all aspects of CIPFA's good practice can be reflected;
- (c) agrees that the self-assessment undertaken will form the basis of an annual report from Audit Committee, 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 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. It is good practice to undertake an annual review of the effectiveness of Audit Committee arrangements.

- 1.4.2 An initial self-assessment of our Audit Committee arrangements, against the good practice recommended by CIPFA, was considered by Audit Committee in July 2019. The Chair of Audit Committee subsequently engaged with serving elected members of Audit Committee on an individual basis, in addition to senior officers, to examine the arrangements in place for our Audit Committee. Several ideas to develop Audit Committee arrangements were discussed and agreed during that review.
- 1.4.3 The self-assessment undertaken during March 2021 demonstrates that our Audit Committee arrangements reflect the good practice areas recommended by CIPFA. There are some identified areas for development which have been delayed during 2020/21, due primarily to circumstances relating to the pandemic, but actions planned to address these areas in early 2021/22 are detailed within the self-assessment at **Annex A**.

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 to Cabinet, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the year.

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:

Annex A: Self-assessment of Good Practice (March 2021) – from CIPFA, Audit Committees, Practical Guidance for Local Authorities and Police, published 2018

1.8 Contact officers:

Kevin McDonald (Acting Chief Internal Auditor) 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.

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, 20 November 2019](#)
- (d) Review of Audit Committee Arrangements, Report prepared for Audit Committee, 25 March 2020
- (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 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 Kevin McDonald

Audit Committee Arrangements: Initial Self Assessment of Good Practice (March 2021)

(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
Audit Committee purpose and governance				
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>There is a general provision in the Constitution that allows any committee of the Council to report matters up to full Council. An initial report (covering 2016/17) from the Chair of Audit Committee to Cabinet was prepared and presented to Cabinet in July 2017, however the work programme of the Audit Committee has not included this as a routine report.</p> <p>The previous review of Audit Committee arrangements, finalised in 2020, proposed that an annual report from Audit Committee is 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.</p> <p>It is intended that an annual report from Audit Committee, for the 2020/21 year, is prepared for presentation to Cabinet.</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 previous review of Audit Committee arrangements, finalised in 2020, identified an action to update Audit Committee's Terms of Reference, reflecting CIPFA's latest Position Statement on Audit Committees in Local Government.</p> <p>Necessary amendments to Audit Committee's Terms of Reference were proposed and agreed as part of the Annual Review of the Constitution at the annual meeting of Council in September 2020.</p>
4	Is the role and purpose of the audit committee understood and accepted across the authority?		✓		<p>This has been examined by the previous reviews of Audit Committee arrangements and demonstrated that the understanding of role and purpose was variable across the Authority at that time. It is hoped that the annual report from Audit Committee to Cabinet (as discussed at 2 above) will help improve understanding and a programme of communication and awareness raising with senior officers and appropriate elected members will be considered.</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?		✓		<p>See question 2 above.</p> <p>The previous review of Audit Committee arrangements, finalised in 2020, proposed that an annual report from Audit Committee is 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.</p> <p>It is intended that an annual report from Audit Committee, for the 2020/21 year, is prepared for presentation to Cabinet.</p>

Functions of the committee

7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				
	▪ good governance	✓			
	▪ assurance framework, including partnerships and collaboration arrangements	✓			
	▪ internal audit	✓			
	▪ external audit	✓			
	▪ financial reporting	✓			
	▪ risk management	✓			
	▪ value for money or best value	✓			
	▪ counter-fraud and corruption.	✓			
	▪ supporting the ethical framework	✓			

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?	✓			<p>See questions 3 and 6 above.</p> <p>The detailed review led by the Chair of Audit Committee, undertaken in 2019/20, assessed these requirements specifically. The Terms of Reference for Audit Committee were subsequently amended as part of the Annual Review of the Constitution at the annual meeting of Council in September 2020.</p> <p>This has been evaluated as part of this self-assessment and is also considered as part of the preparation of the work programme for Audit Committee, considered by Audit Committee in March each year.</p>
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?	✓			<p>This was considered in some detail during the Review of Audit Committee Arrangements completed in 2020. The Chair of Audit Committee engaged with serving elected members of Audit Committee on an individual basis, in addition to senior officers. Our Audit Committee arrangements were examined and possible wider areas for inclusion within Audit Committee's programme of work were discussed.</p>
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	✓			<p>See questions 3 and 7 above.</p> <p>Necessary amendments to Audit Committee's Terms of Reference were proposed and agreed as part of the Annual Review of the Constitution at the annual meeting of Council in September 2020, following actions identified in March 2020.</p>
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
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	✓			
	▪ 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?		✓		Improvements have been made regarding a structured induction to Audit Committee as part of the Members' Development Programme. The pandemic situation has precluded identified training / briefing sessions for Audit Committee from happening as planned during 2020/21, however a programme of appropriate briefings / training has been developed for Audit Committee during 2021/22.

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 framework and required knowledge and skills were discussed with Audit Committee members as part of the review undertaken during 2019/20, with no issues identified.
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. It is intended that an annual report from Audit Committee, for the 2020/21 year, is prepared for presentation to Cabinet.
20	Are meetings effective with a good level of discussion and engagement from all the members?	✓			

Good practice questions		Yes	Partly	No	Comments
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?		✓		<p>Audit Committee is not routinely attended by a wide range of leaders and managers. Possible methods of engagement, and Audit Committee's role regarding assurance on audit findings, risks and action plans, were discussed with Audit Committee members as part of the review undertaken during 2019/20. The Chief Executive plans to attend Audit Committee, to outline the work which he has commissioned regarding a full fundamental review of corporate risks.</p> <p>As Audit Committee receive reports on matters of governance, risk management and control throughout the course of the year, Audit Committee can then determine whether it would be beneficial to the Committee's work to invite appropriate Heads of Service to attend a meeting of the Committee.</p>
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓			
23	Has the committee evaluated whether and how it is adding value to the organisation?	✓			Undertaken as part of the 2019/20 review of Audit Committee arrangements.
24	Does the committee have an action plan to improve any areas of weakness?	✓			Recommended actions were identified following the review of Audit Committee arrangements undertaken during 2019/20 and progress on all actions is detailed in this report. Action plans continue to be monitored to ensure all required actions are completed.
25	Does the committee publish an annual report to account for its performance and explain its work?		✓		See above (questions 2 and 6)