

Understanding local government audit committees

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 - Head of Internal Audit for 25 years at Barnsley MBC
 - Responsible for corporate anti-fraud, RMgt and governance assurance
 - Statutory DPO for Barnsley MBC, Housing ALMO and SY Pensions
 - 13 years NED experience in NHS and HE, chairing audit committees
 - Wide public sector client experience – policing, fire and rescue, housing, pensions, transport, regional gov., academies, FE college
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Today's agenda

- The current context for audit committees
 - What do we mean by governance and assurance
 - What are audit committees, their purpose, core functions, typical terms of reference, impact
 - Characteristics of an effective audit committee, its status and make-up
 - Questioning, challenge and assurance
 - Internal and External Audit
 - The audit committee and the AGS
 - Annual reporting / effectiveness
 - Hot issues
 - Useful resources
 - Specific questioning, IA, risk mgt., financial management
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The current context of audit committees

Audit Committees are important!

- Increasing focus on audit committee effectiveness
 - Greater focus on **governance** in its broadest sense
 - Advocate for how critical good governance is
 - Focus on continual **assurance**
 - Important all members understand and effectively discharge the core audit committee roles
 - Has the right profile and status in the council / respected and supported
 - Providing constructive, but supportive challenge essential
 - Adding organisational value, influence and an impact
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Governance and assurance

What do we mean by ‘governance’?

- Important to appreciate what this is and how important it is to run an efficient and effective Council
 - This is the core of what an audit committee considers
 - Council’s and other organisations fail and get into difficulty because of poor governance and culture
 - We neglect having a focus on good governance and compliance at our peril!
 - All members have a role in good governance given the full Council is Those Charged with Governance!
 - But an audit committee (AC) has a particular role and focus
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Governance and assurance

What do we mean by ‘governance’?

- In its simplest form it covers the policies, procedures, practices and importantly the culture that governs how an organisation ensures it does the right things, in the right way to deliver the services required or expected.
 - The governance framework therefore incapsulates ‘how we do things’!
 - It’s the policies and procedures that guide and direct how we discharge our responsibilities individually and collectively as a publicly accountable organisation.
 - Governance is sometimes just thought to relate to decision-making – it’s much broader than that.
 - It is essential that there is an effective and efficient ‘governance’ framework in place a local code of governance, the how we ‘do governance’ here
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What do we mean by assurance?

LGA definition:

- Timely and accurate information, evidence and evaluation of how local authorities are delivering their duties, functions and outcomes, which can be used to hold them to account and may give confidence.
 - There should be no assumption that assurance will always be gained – in some cases the outcome will be ‘not assured’.
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Governance and assurance

Responsibilities for governance and assurance

- It is a management responsibility to create and maintain appropriate, efficient and effective frameworks for governance and assurance.
 - It is everyone's responsibility within the council to understand and comply with those frameworks.
 - Internal and External Audit work to provide assurance to management and the AC and wider Council on the effectiveness of governance, risk management and internal controls.
 - But it is an AC that provides an overarching view of the governance arrangements to provide assurance to the Council.
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Legislative context for audit committees

- Until the English Devolution and Community Empowerment Act 2026, there was no statutory requirement to have an AC.
 - Section 79 of the Act states the functions of the AC as:
 - Reviewing and scrutinising the authority’s financial affairs
 - Reviewing and assessing the authority’s risk management, internal control and governance arrangements
 - Reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority’s functions
 - Making reports and recommendations to the authority in relation to reviews conducted
 - Must have at least one independent member
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CIPFA Guidance for audit committees

- CIPFA is the authoritative body for public sector accounting and auditing
 - Issues guidance on audit committee:
 - <https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>
 - Won't go far wrong if this guidance is followed!
 - There will be some revised guidance to reflect the new EDCP Act
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Purpose of the audit committee

- Key component of an authority's **governance framework**.
 - To provide an **independent** and **high-level** focus on the adequacy of **governance, risk and control arrangements**.
 - Ensuring that there is sufficient **assurance** over governance, risk and control gives a greater **confidence** to all those charged with governance that those arrangements are effective.
 - Oversight of both internal and external audit together with the financial and governance reports, helps to ensure that there are **adequate arrangements** in place for both **internal challenge** and **public accountability**.
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Purpose of the Audit Committee

Figure 1: The influential audit committee



The Audit Committee supports:

- Effective audit and assurance
- Effective internal controls
- Good governance and decision making
- Improving reporting, transparency and accountability
- Embedding ethical values and countering fraud
- Effective risk management
- Improving value for money
- Achievement of organisational goals

Source - Audit Committees: practical guidance for local authorities and police. CIPFA 2022 edition.

Core functions

CIPFAs Position Statement on the core functions for local authority audit committees:

- ✓ Supporting the establishment and maintenance of good **governance, risk management** and **control arrangements**
- ✓ Supporting **accountability** and public reporting, in particular the financial statements and the annual governance statement, and other statements that accompany the financial statements
- ✓ Supporting the establishment and maintenance of good arrangements for internal and external audit

A whole council perspective

Terms of Reference

Model Terms of Reference recommended by CIPFA in “Audit Committees: Practical Guidance for Local Authorities and Police”

Advising those charged with governance (TCWG - full Council)

on the adequacy of:

1. Authority’s governance, assurance statements and financial statements
 2. Internal audit arrangements, findings and authority’s response
 3. Effectiveness of risk management arrangements
 4. Internal control arrangements, including value for money and minimising fraud and corruption
 5. External Audit and Inspection agency findings and implications for governance
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Terms of reference / typical coverage

Examining the arrangements in place to provide assurance on:

Key Areas:	Broader areas of governance:
Internal control framework	• Workforce
Risk management	• Health and safety
Financial probity and stewardship	• Business continuity / emergency resilience
Best value / VfM	• Information governance
Anti-fraud and corruption / WB	• Asset management
Preparation of the AGS	• Equality and inclusion
Preparation of the statutory accounts	• Projects, partnerships and collaborations
Internal audit	• Performance mgt. / data quality
External audit	• Environmental governance
Treasury Management	• Inspection reports / Ombudsman

Wider responsibilities

Supporting the Authority by considering:

- Issues raised by other Committees
- Working with Ethics or Standards Committees
- Oversight of reports such as the Annual Report.

Audit Committees should generally not have any formal decision-making powers but still be influential and add value to the whole Authority.

How to deliver the core functions

Audit Committee can expect to receive **assurance**, at varying levels, from various sources during the year.

The assurance will be **cumulative**, to build a picture of the council's strengths and weaknesses.

Audit Committee members may ask for further assurance where they are not satisfied, maybe directly from management, through further audit work, or the result of a 'deep dive' into an issue.

Audit Committee will report to full council the findings and conclusions based on the assurances received.

CAKE



Cumulative Audit / Assurance Knowledge and Experience

Bucket of assurance

Over the course of the year, evidence or assurance provided to the Committee will add to the CAKE and add to the bucket of assurance.

Sources of assurance:

Audit reports

Assurance reports

Governance Statements

Improvement plans

Monitoring implementation

Financial Statements

Risk management reports



**Audit
Committee
Report to
Council**

**AGS/signing
the Accounts**

The impact of the audit committee

- As a non-executive body, the influence of the audit committee depends on the **engagement** with the leadership team and those charged with governance.
 - Impact must be **tangible** in the authority.
 - The committee should **evaluate its impact** and identify any areas for its own improvement.
 - **BUT** the single most important ingredient is the **culture** of the authority and the **behaviours** that enable and actively facilitate an effective and robust audit committee.
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The audit committee and overview and scrutiny

- Sometimes roles are confused, but they are importantly different
 - A useful way to distinguish them:
 - **Audit Committee**
“Are we running the organisation safely, legally, and under control?”
 - **Overview & Scrutiny**
“Are we making the right choices and achieving the right outcomes?”
 - **Why the Difference Matters**
 - Strong councils need both:
 - **Audit Committees** protect institutional integrity and assurance.
 - **Scrutiny Committees** strengthen democratic accountability and service improvement.
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The audit committee and overview and scrutiny

- ‘Two sides of the same coin’ is another way of thinking about the AC and O&S
 - **NOT** recommended to combine the roles into one Committee
 - Good however, to have a relationship and understand what each is looking at and finding – sharing the workplans
 - Chairs of each attending the other’s meetings periodically
 - Good practice for each to have access to reports
 - Issues arising from a O&S report relating to governance, risk management or control could be referred to the AC
 - Possible too that something arising from an AC report could be referred to O&S for their deeper more operational review.
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Making sure the Audit Committee achieves influence

- Be an advocate for good governance
 - Provide TCWG a clear and independent assessment of the assurance received and suggested actions or response
 - Principal non-executive advisory function with clear rights of access to information
 - Pan-service, council-wide perspective
 - Dedicated consideration of internal and external audit findings and the actions required to address issues raised
 - Monitoring of control arrangements, including value for money, fraud and corruption.
 - Oversight of risk management arrangements
 - Escalate matters as necessary
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Expected Reports

- Financial Statements x 2 (pre and post audit)
- Annual Governance Statement x 2 (pre-publication and with Accounts approval)
- Internal Auditor's reports (individual progress reports and annual report and opinion)
- External Auditor's reports (planning, annual report and opinion)
- Whistleblowing, Countering Fraud and Corruption arrangements reports
- Risk Management arrangements and reviews of risk registers
- Assessment against CIPFA's Financial Management Code
- CFO (s151) officer reports (S25 report, budget monitoring, MTFS, budget)
- Treasury Management reports
- Governance assurance reports (covering wider aspects of the council's governance)
- Partnership arrangements and reports from other Committees

It should be clear what the Audit Committee is asked to do with these reports. Shouldn't be just to 'note'. Should be to consider and evaluate the evidence / information, prompt action where not satisfied and conclude as to the extent to which the report provides **sufficient assurance**.

Characteristics of an effective audit committee

Important that individually and collectively the audit committee is:

- Independent
 - Objective
 - Fair-minded
 - Rigorous (ask officers in / follow-up)
 - Constructively challenging
 - Supportive of good governance
 - Improvement focussed
 - Active not passive
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Characteristics of an effective audit committee

Important that individually and collectively the audit committee is:

- Knowledgeable - about the objectives of the council, its current significant issues and risks, its structure, including governance arrangements, understanding of the council's culture
 - Skilful and experienced - risk management, internal / external audit, governance, accounting / financial governance, IT, HR, procurement, general governance / management
 - Interested in the work of the audit committee
 - Committed to operating non-politically at all times
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Knowledge and skills

Core areas of knowledge

- Organisational knowledge
- Audit Committee role and functions
- Governance arrangements
- Internal and External audit
- Financial management and financial reporting
- Risk management
- Counter fraud
- Values of good governance
- Treasury management

Core skills

- Strategic thinking and understanding materiality
 - Questioning and constructive challenge
 - Focus on improvement
 - Able to balance practicality against theory
 - Clear communication skills and focus on the needs of users
 - Independence of mind
 - Objectivity
 - Meeting management skills
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Independent, co-opted members

- Always been recommended by CIPFA and LGA
 - Now a requirement in England
 - Reinforces independence and the non-political perspective
 - Increasingly common to have a least one, some have more
 - Add specialist expertise, experience and a broader perspective
 - Add continuity given the political cycle
 - Need a good induction to understand the council
 - Need to have their skills and experience accepted and valued
 - Voting rights only an issue if committee has formal delegated decision-making responsibilities (not usual or recommended)
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Status and make-up of the Audit Committee

Size and make-up

- Typically, 6-8 members (avoid too many, and ideally no substitutes)
- Politically balanced, knowledgeable, interested members
- Independent member(s)

Who should attend?

- S151 Officer (always)
 - Monitoring Officer (always)
 - Chief Executive (sometimes – for Accounts and AGS at least)
 - Senior Officers (sometimes – for risk mgt., IA reports)
 - Internal and External Audit (always)
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What an audit committee shouldn't do

- X Discuss or set policy
 - X Set strategy
 - X Duplicate the roles of other committees – it isn't a scrutiny or a standards committee
 - X Do management's job / make operational decisions
 - X Just focus on finance or audit
 - X Get too involved in detail
 - X Operate just to find problems
 - X Score political points
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The AC's place in the Council

- Critical that the AC is, and is seen to be, integrated into the governance machinery of the council
 - Often ACs can be somewhat separate, standalone and disconnected from Cabinet or a Policy & Resources Committee
 - The most effective ACs are ones that have the right profile and status and are empowered by the CEO and Leader
 - Attended by the right senior officers
 - Attended perhaps by Cabinet Portfolio Holder for Finance or Chair of a P&R Committee (not members of the AC)
 - Seen to have an impact and influence
 - Adding value to the effectiveness of the council
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Questioning, challenge and assurance

- An audit committee has to be informed and assured (not ‘to Note’).
 - Assured from reports / presentations, but also from deeper questioning.
 - Risk of getting into a ‘tick box’ mentality, so don’t take managements or the auditor’s word for it
 - See working examples / real evidence (see it!)
 - Build your CAKE
 - Seek closure, see things through and hold to account
 - Must be comfortable with the assurances you’re able to give
 - Escalate or revisit a matter if not assured / satisfied
 - **And there is no such thing as a daft question!!**
 - Asking something simple, like ‘can you explain ‘why’, ‘how’ or ‘what’s changed’, often opens up further questions
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Questioning, challenge and assurance

- Framed to elicit assurance
 - Ask to have examples of internal controls explained
 - Input to policies and key elements of governance – not to approve
 - Overseeing the implementation of agreed actions
 - Have confidence about the annual governance review process
 - Satisfaction that the AGS adequately reflects the review undertaken

 - Are you happy with the format, detail and clarity of the reports?
 - Open questions to prompt a conversation
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Working with Internal and External Audit

Different roles and remits – Audit Committee needs both

Internal Audit – mainly April to March – reviewing systems and process in year – followed by an Annual Report and Opinion after the year end, usually alongside the AGS. Conducted in accordance with professional standards - An aid to management.

External Audit – generally October to September – much of the work is conducted after the financial year end. Annual Audit Report on VFM and the opinion on the Accounts. Conducted in accordance with International Standards on Auditing UK (ISAs UK).

Significant issues around ‘local audit’ for several years and for a few more years. Independent assurance

Internal Audit

Internal auditing is an **independent, objective** assurance and **consulting** activity designed to **add value** and **improve** an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and **improve the effectiveness of risk management, control and governance processes.**

To enhance and protect organisational **value** by providing risk-based and objective assurance, advice and **insight.**

Internal Audit

- Mixed provision:
 - Fully in-house team
 - In-house and some bought in / co-sourced
 - Fully outsourced
 - Shared service (other councils or consortia)
 - Key resource for the organisation, management and the Audit Committee
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External Audit (Local Audit)

- New arrangements coming in under the EDCP Act including creating a Local Audit Office
 - Previously procured through Public Sector Audit Appointments (PSAA)
 - Operate to a national Code of Audit Practice (NAO)
 - Local context taken into account in annual risk assessments for planning work
 - Audit of the financial statements – ISA260 Report ‘to Those Charged with Governance’
 - VFM report – looking at financial sustainability, governance and improving value for money.
 - Considerable difficulties over the last few years in local audit impacting on the assurance councils are able to get from their external auditors
 - Process of ‘building back assurance’ over a number of years – but not for all councils
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Why are we getting this report?

- What assurance is it intended to give?
 - Written 'for' the audit committee
 - What are the salient issues?
 - Executive summary, but don't rely on it
 - What are the themes / key lines of enquiry
 - Are you better informed and assured as a result?
 - If not ask for more information / change style / format of the report / ask for a presentation (not everything has to be in a formal report)
 - Don't accept a report if all you are asked to do is 'note it'!
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The audit committee role in the AGS

- Important and statutory document
 - Public document to inform and assure
 - AC should get assurances about the process for its preparation?
 - AC should see a draft AGS and comment?
 - Does the AGS genuinely reflect the key governance issues?
 - Is it truly open and transparent reflecting the culture of the council?
 - Is it written with the public in mind?
 - AC should get updates on the implementation of actions throughout the year?
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Review of AC effectiveness

- Recommended to review the committee's own effectiveness annually, in some shape or form
 - CIPFA guidance to use
 - Independent review occasionally
 - Important part of effective governance (demonstrates culture to improve governance)
 - Focus on individual and collective effectiveness
 - Development plan and personal training requirements
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The annual report to council

- Recommended practice
 - AC giving assurance to council colleagues
 - More than just a constitutional nicety
 - Timed to contribute to the Annual Governance Statement
 - Chair presents at Full Council
 - Encourages debate and engagement
 - Matters to draw to the Council's attention
 - Raises awareness and profile of the AC
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Hot issues for the audit committee

- Financial management, VfM/BV and financial sustainability (MTFS)
 - Managing current pressures – housing, income, SEND, local issues
 - Commercial activities / partnerships and collaborations
 - Cyber threats / cyber resilience / general fraud landscape
 - Use of AI, digital maturity and transformation
 - Organisational resilience and culture (incl. staff wellbeing)
 - Recruitment and retention – key senior roles particularly / use of interims
 - Procurement, supply chain and contract management
 - Regulatory changes, devolution / re-organisations
 - Environmental responsibilities
 - Local audit – the backlog and longer-term implications
 - WW3!
 - **And staying safe, while all the above is happening!!**
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Hot issues for the audit committee

- Are these on the risk register?
 - How might Internal Audit be covering them in their audit plan?
 - If not IA, how will you get assurance on them?
 - How do they feature in your workplan?
 - Do you need briefings on these areas?
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To summarise....

- The AC is an important aspect of council business
 - Key to helping improve governance
 - Council wide perspective, so interesting and influential
 - Use your experience and knowledge
 - Think ‘assurance’ - are you more confident, better informed?
 - Employ ‘professional (constructive) scepticism’
 - Fulfilling your roles and responsibilities will add value
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Useful resources

***** LGA** – Training programme for AC Chairs - [Leadership Essentials](#)

LGA – Must Know Guides:

- **Working with Auditors** - [Must Know Guide - Working with auditors](#)
- **The annual budget process** - [Must Know Guide - The annual budget process](#)
- **The statement of accounts** - [Must Know Guide - The statement of accounts](#)
- **Risk management** – [Must Know Guide - Risk Management](#)

LGA – Councillor’s guide: Improvement and assurance framework for local government - [Councillors guide: Improvement and assurance framework for local government](#)

LGA – Ten questions for Audit Committees - [Ten questions for audit committees](#)

Questions, challenge and assurance examples

The following slides provide examples of how an AC could ask questions in a few key areas of AC interest, Internal Audit, Risk Management and Financial Management.

Questions, challenge and assurance – Internal Audit

- How is the audit plan put together?
 - Does the HoIA consider the Team to be sufficiently resourced?
 - How would additional resources be deployed?
 - How does IA work link to the risk register?
 - How are requests for changes in audit coverage dealt with?
 - How are the skills and experience of the IA Team utilised?
 - Are there any gaps in the skills and experience of the IA Team and if so, how are these being addressed?
 - What arrangements are in place to fill any gaps?
 - What audit work is not possible because of the size or skills of the IA Team?
 - In relation to specific audit reports where a limited assurance opinion is given, ensure the responsible manager attends the meeting and explains the issues and their response.
 - How do IA and ExtA liaise and work together?
 - What are key issues arising from the new Internal Audit Standards?
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Questions, challenge and assurance – Internal Audit

- Consider the IA Charter – does it adequately explain IAs role, mandate, status and position in the Council?
 - Engage in the IA planning process – how are you involved?
 - Consider IA delivery of the plan / changes – who decides?
 - Monitor management actions in response to IA reports – any delays?
 - Consider annual opinion report of HoIA – Gov / RM / IC - do the results of IA work reflect the overall opinion?
 - Test IAs independence / unfettered access – no management interference or pressure?
 - Consider IAs KPIs, feedback and conformance with GIAS (UK)
 - Provision for the committee to meet HoIA (and ExA) privately
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Questions, challenge and assurance – risk management

- Your role is to be assured, that the RM arrangements are fit for purpose, work and are consistently complied with.
 - Review/approve RM Policy framework – does it make sense, easy to understand, how monitored?
 - Consider and challenge the risk appetite or tolerance (variable) – how determined?
 - Seek clarity about roles within RM process – how does it actually work?
 - Senior management ownership / leading from the top – how do they show this?
 - Review risk registers – strategic, operational and project (deep dives) – do they make sense?
 - Focus on the actions, accountabilities, progress, impact – less focus on the scores!
 - See that risks link to organisational objectives and performance management framework – how?
 - Partnership, collaboration and key contract risks covered – are the key ones specifically highlighted?
 - Mitigation actions owned, progressed and show impact – no ‘on-going’ – review dates instead
 - Links to other aspects of the control framework – how joined up / integrated are controls?
 - How the RM arrangements are reviewed – how does IA give assurance on / use risk management
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Questions, challenge and assurance – risk management

- Key tool are the risk registers and information in reports that highlight any risks and provide details (assurances) about how they will be managed to ensure the right outcome.
 - Utilise a ‘deep dive’ approach at each meeting to look in detail at one or two risks, as well as a general overview of changes, reasons, delays in actions and the implications.
 - Questions / assurances:
 - ✓ get explanations as to why something is assessed as a risk
 - ✓ rationale for the scored assessment
 - ✓ how do we know the current measures are effective?
 - ✓ what will the further measures improve?
 - ✓ how will those be measured?
 - ✓ what are the key milestones for implementation?
 - ✓ get the risk owner / action manager to explain progress
 - ✓ what’s ‘plan B’ (or C or D)?
 - ✓ get the risk owner to explain their degree of confidence about how the risk is being managed
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Questions, challenge and assurance – financial management

- What is the process to ensure business cases / savings plans are robust and achievable?
 - Where budget problems have occurred in the past, what reviews have been undertaken to identify learning opportunities and revised procedures and training?
 - What is the approach to ensure all budget managers are sufficiently trained?
 - What are the arrangements within services for regular budget monitoring and reporting?
 - How are budget managers held accountable for their budgets / delivery of savings / efficiencies?
 - How is the impact of budget savings assessed in terms of service delivery?
 - What work is included in the IA plan to provide assurances on financial management?
 - How are the risks associated with budget delivery monitored and reported
 - How are the assumptions in the MTFS challenged (not what they are per se)
 - What is the process for the MTFS to be reviewed and updated and considered by Cabinet?
 - How is benchmarking used to determine if we could do things better?
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