

The Audit Committee in local government

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Local government finance officer
1981-2013

Finance director and deputy s.151 officer
2004-2013

LGA 2013- 2024 – lead on audit after 2019

Independent member of a London Borough
Audit Committee

Today's agenda



What are an elected members general responsibilities in relation to governance?



What is the Audit Committee, and why?



Some aspects of good practice

Overarching responsibilities of elected members

Stewardship	Responsible and careful management of public money, assets etc.
Fiduciary responsibility	Relationship of trust with stakeholders eg taxpayers and service users
Those charged with governance	Those responsible for overseeing the strategic direction of the council and <i>obligations related to accountability</i>

What is an audit committee

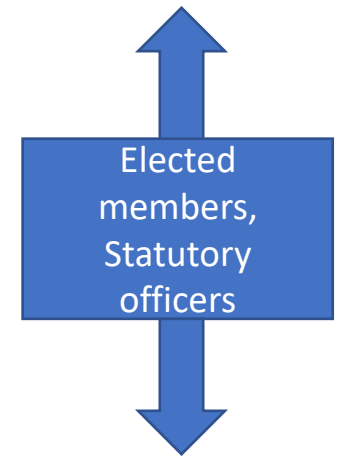
“The purpose of an audit committee is to provide to those charged with governance independent **assurance** on the adequacy of the **risk management** framework, the **internal control** environment and the integrity of the **financial reporting** and annual **governance** processes. By overseeing **internal and external audit** it makes an important contribution to ensuring that effective assurance arrangements are in place.”

CIPFA's Position Statement: Audit Committees in Local Authorities and Police CIPFA, 2018

Assurance

Accountability vs. Assurance

- Accountability
 - Direct relationship between those acting and those affected by their actions (or inactions)
 - “I am accountable to you”
 - Trust based
 - Elected member- citizen, officer-member, employer-employee
- Assurance
 - Indirect relationship through an intermediary
 - “She is seeking assurance from me on your behalf”
 - Evidence based
 - Auditors, inspectors, elected representatives, CFO and MO...
 - ...and Audit Committee



Financial reporting

Approve the statement of accounts and receive the external auditor's report as to a 'true & fair view'.

Risk management

Review how the council understands its risks and manages them, both individually and in total.

Governance

Review how we make decisions and make sure we deliver on them, and the systems and policies ensure proper stewardship of public resources.

Internal Control

Oversee the policies, processes, tasks, behaviours that facilitate effective and efficient operations, help to ensure the quality of reporting, and ensure compliance with applicable laws and regulations.

**“It ain’t what you do, it’s the way
that you do it”**



Audit Committee

- A committee of the council
 - Responsible to the full council, not the executive
 - Comprised largely of elected members
 - Should include co-opted, independent members
 - Normally a chair who is an elected member
 - Support from officers (Chief Internal Auditor/ Head of Risk Management)
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KPMG audit committee best practices

(KPMG Audit Committee Institute)

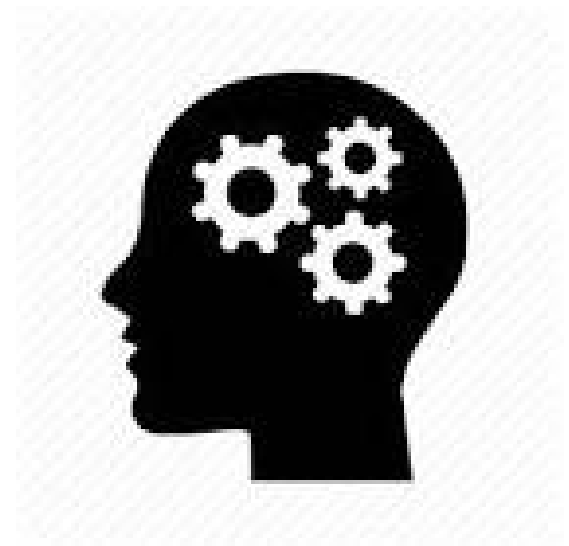
- Clarity of purpose
 - Right people
 - Committee Members
 - Chair
 - Officer support
 - Induction
 - Time together
 - Between meetings
 - Right information
 - Healthy relationships
 - Informing the council
 - Driving improvement
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An Audit Committee is not....

- A 'Scrutiny Committee'
- A forum to discuss policy
- A maker of operational decisions
- Just concerned with finance
- A mechanism to allocate blame
- An opportunity to score points
- There to catch people out (ideally)

Key skills/ attributes for AC members

- “Professional scepticism”
- Leading by example
- Seeing the big picture
- Awareness of the wider context - emerging risks
- Being prepared to probe
- Identifying where assurance lies
- Boldness
- Tenacity



What does good look like?

- Small, consisting of appropriately motivated, skilled, trained and briefed members.
- Coopted independent members to add expertise
- Strategic and forward looking workplan
- Regular meetings, clear well-planned agenda
- Good and appropriate relationship with auditors (Internal and External)
- Private meetings with auditors (without officers)
- Helping to drive improvement, e.g. annual report back to Full Council

Work Programme

Ensure terms of reference are covered

Frequency of reports

Carve out space for the Committee

- Assert independence
 - Take time
 - Don't be side tracked– prioritise
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Why are we getting this report?

- What assurance is it intended to give?
 - What are the salient issues?
 - Themes/ key lines of enquiry
 - Just a tick in a box?
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Internal & external audit

Internal audit

- The council's own officers (or contractors)
- Statutory requirement
- Independent appraisal of the council's processes, systems & controls
- Reports directed to management
- Update to Audit Committee at every meeting
- Chief Internal Auditor is very often the main professional adviser to the Audit Committee

External audit

- External firm of accountants
 - Statutory requirement
 - Opinion on the accounts ('true and fair view')
 - Value for Money commentary
 - Other powers and duties (see below)
 - Reports directed at the Council/ the authority
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Internal audit

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

Accounts & Audit Regulations s.5(1)





Internal Audit

- “The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.
- We have a professional duty to provide an unbiased and objective view. We must be independent from the operations we evaluate and report to the highest level in an organisation: senior managers and governors. Typically, this is the board of directors or the board of trustees, the accounting officer or the audit committee.”

**Definition from Chartered Institute of
Internal Auditors (CIIA)**

Internal Audit reporting

Explanation of Assurance and Risk Priority Levels

Assurance level		Assessment Rationale	
Good		There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.	
Satisfactory		Whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk.	
Limited		There are significant weaknesses in key areas of the system of control, which put the system/process objectives at risk. Improvement in the design and/or operational effectiveness of the control environment is necessary to gain assurance that risks are being managed to an acceptable level, and core objectives will be achieved.	
No		The system of internal control has serious weaknesses and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.	
Risk Priority Level		Definition	
Corporate	Critical	 Red	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, for example, reputational damage, significant financial loss (through fraud, error or poor value for money), intervention by external agencies and / or lack of compliance with statutory regulations. Remedial action is required immediately
Service	Major	 Amber	Audit findings indicate a serious weakness or breakdown in the control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently
	Moderate	 Yellow	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Prompt specific action should be taken
	Low	 Green	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. Remedial action is suggested

Overseeing Internal Audit

- Support its independence
- Oversee its performance and professionalism
- Receive and monitor the audit plan
- Ensure clear ownership of implementation of IA findings and monitor implementation of recommendations
- Consider the annual internal audit opinion – any actions?
- Seek external assurance about its effectiveness- external audit, External Quality Assessment

Challenge and escalation

- Holding managers to account (including having people in, and having them back)
 - Listening and questioning
 - ‘Deep dives’/ special reports
 - Following up and tying the loose threads
 - Reporting ‘upwards’ (ie to full council)
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External Audit

- Opinion on the accounts ('true and fair view')
 - Value for Money commentary
 - Public questions and objections to the accounts
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- Reports in the Public Interest
- Statutory Recommendations
- Advisory notices
- Judicial reviews



Managing the relationship with External Audit

- The auditor is (ideally) the Audit Committee's ally – there to help you do your job.
- External Audit will report on governance, control framework, risk management, value for money – the business of the audit committee.
- Consider and respond to reports produced by External Audit
- Management will (should) have already been given a chance to respond.
- Expectation that the audit partner/ lead auditor attends meetings
- Option of private meetings with the auditor
- Remember – they are assessing you too!

Annual Statement of Accounts

- Audit Committee receives auditors report- ‘true and fair view’
 - Audit opinion – ‘unqualified’ or ‘qualified’, or ‘adverse’.
 - Disclaimed opinion (see below)
 - Statement of accounts are lengthy and complicated – always ask officers
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Current external audit problems

- Major backlog of external audits*
- Insufficient capacity in the market
- ‘Regulation inflation’
- Increasing risk environment
- Exacerbated by COVID

* At 30th April 2024, nearly 1000 audit opinions outstanding

Audit disclaimer

- Government has set ‘backstop dates’ to enable auditors to clear backlog
 - In order to do this, some audits will need to be ‘disclaimed’
 - Long term implications of this unclear
 - Not the end of it – opening balances
 - More to do- rebuild capacity, simplify audits
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Annual Governance Statement

- “A relevant authority must, each financial year—**
- (a) conduct a review of the effectiveness of the system of internal control; and**
 - (b) prepare an annual governance statement”**

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- How complete does the AGS appear to be?
 - Does it deal with current issues as well as standing ones?
 - How does this year’s AGS compare with last years?
 - Cross reference to other reports eg. strategic risk register
 - Where issues are identified, is the plan of action evident?
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Your questions

- Framed to elicit assurance (or otherwise)
 - Not here to catch people out (generally)
 - Lots of ‘what’ and ‘how’ questions
 - ‘Who’, ‘why’ and ‘when’ questions relatively sparingly.
 - Keep in mind the big picture, but be prepared to deep dive if necessary
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The (annual) report to council

- Audit Committee giving assurance to council colleagues.
 - More than just the constitutional requirement
 - Chair presents at full council
 - Encourages debate
 - Matters to draw to Council's attention?
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Self-assessment

- On what areas does the audit committee spend most of its time?
 - Does that fit with what your terms of reference say?
 - Does that reflect your organisation's strengths and weaknesses, its risks and priorities?
 - What else could you or should you be doing?
 - What isn't on the agenda, but should be?
 - Focused on the big picture or over-concerned with minor weaknesses that management should sort out?
 - Are there any running sores – stuff that never seems to get sorted?
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To summarise....

- Audit Committee is an important aspect of council business and can be fascinating
 - Use your experience and knowledge
 - Think ‘assurance’.
 - Employ ‘professional scepticism’.
 - You have help!
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Thank you

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