

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
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.)		✓		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.
	▪ good governance		✓		
	▪ assurance framework	✓			
	▪ internal audit	✓			
	▪ external audit	✓			
	▪ financial reporting	✓			
	▪ risk management	✓			
	▪ value for money or best value		✓		
	▪ counter-fraud and corruption.	✓			
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.