



CIPFA Audit Committee Guidance

CIPFA Audit Committee Guidance

Date: 14 March 2023

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Rich Clarke, Head of Assurance

Outline and recommendations

This report summarises for Audit Panel Members the new guidance for local authority audit committees published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in late 2022.

It notes that Lewisham's Audit Panel is materially in line with the guidance already. But nevertheless, recommends that Members agree to incorporate the guidance in its work programme for the forthcoming municipal year.

1. Summary

- 1.1. This report gives an overview of the new CIPFA Guidance for Audit Committees in local authorities, published in October 2022. The report is primarily for information, but its content will support development of the Panel as it forms a work programme for the next municipal year.

2. Recommendations

- 2.1. That Members **note** the report and guidance.

3. Policy Context

- 3.1. High quality governance is a crucial component in maintaining a effective and ethical organisation and delivering across the Council's Corporate Priorities as

set out in the [Corporate Strategy \(2022-2026\)](#).

4. Background

- 4.1. In [July 2019](#), prompted by concerns over the quality of local authority audits, the then Communities Secretary James Brokenshire commissioned a review by former CIPFA President Sir Tony Redmond.
- 4.2. The subsequent report – the [Redmond Review](#) – was published by the government in September 2020. The Review included various recommendations aimed at improving local authority governance arrangements. These included recommendations on the scope, composition and prominence of local authority audit committees.
- 4.3. In April 2022, ahead of the formal Government response, CIPFA published its [Position Statement on Audit Committees](#). This document gave a high-level summary of CIPFA’s view on the necessary scope, membership and expertise necessary to establish and maintain an effective audit committee.
- 4.4. After a consultation, the Government published its response to the Redmond Review recommendations in [May 2022](#). Specifically on the recommendations for local authority audit committees, the Government responded that it:

“... welcomes the strong support [in the consultation] for strengthened guidance [for audit committees]. The government has fed back the key comment themes to CIPFA as the developed the guidance further. Government has worked with partners to ensure consultation views are reflected in the composition of the audit committees and its reporting mechanisms which it considers to be a relatively simple and cost-effective step in ensuring transparency across the sector. CIPFA published its Position Statement and supporting guidance in April 2022 which recommends the need for audit committees to be apolitical, for improved preparedness for external audit arrangements, ensuring membership has the right expertise, and reporting and publishing annually on committee effectiveness.

The government accepts there are different perspectives on whether Audit Committees should be a statutory requirement, and notes that fundamentally it is very important that local authorities are able to tailor their structures to local need.

There are, however, benefits to mandating audit committees, including increased transparency and consistency. Redmond found that arrangements for the Police were working effectively, while Major Combined Authorities were also required to have them, making local authorities an anomaly. Strengthened audit committees have also been a key issue in recent Public Interest Reports.

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Fundamentally, it is important that councils, as with other public bodies, have appropriate measures in place: the government considers it proportionate to establish a simple principle that local authorities should have an audit committee, with at least one independent member. Mandating for audit committees would ensure widespread take-up, along with improved public accountability.

Consequently, based on the consultation feedback, we will be making Audit Committees, with at least one independent member, a mandatory requirement once Parliamentary time allows.

We will continue to consult with partners on how this should be implemented. In the intervening period, the government would encourage local bodies to establish their arrangements in line with CIPFA's guidance, including appointing independent members.”

- 4.5. After a further consultation, CIPFA published [Audit Committees: Practical Guidance for Local Authorities and Police \(2022 edition\)](#) in late October 2022. Note that this is a paid-for publication so we cannot link to or attach the full document in public committee papers. However, we circulated a full copy to all Members of this Panel by email on 7 December and will be happy to re-circulate on request.
- 4.6. This report aims to provide Members of the Panel with a summary of the key requirements of the guidance and their implications for Lewisham.

5. Audit Committees: Practical Guidance for Local Authorities

Key changes from 2018

- 5.1. CIPFA last published guidance for Audit Committees in 2018, before the government commissioned the Redmond Review. The 2022 update, reflecting the Redmond Review and the Government's response, is aimed more directly at audit committee members. It acknowledges some degree of overlap with scrutiny committees, but stresses a focus not just on the audit committee's formal role but evaluating the impact it can deliver to add value for the Council.
- 5.2. There is a significantly increased focus on the required ethical framework, and new sections on supporting and making best use of audit (both internal and external). The guidance also reflects the changing role of both internal and external audit, including acknowledging the expanded Value for Money conclusion obligations of external auditors. Similarly the guidance reflects developments with internal audit standards, including the [CIPFA statement on the role of the Head of Internal Audit](#) and the [Untapped Potential](#) report (2022).

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Specifically, the guidance advocates audit committee involvement in recruiting and appraising a head of internal audit and overseeing decisions on whether to provide internal audit as an in-house or outsourced service.

Core roles and membership of an audit committee

- 5.3. The core roles set out in the guidance are consistent with those described in the Position Statement. Specifically that the audit committee should deliver an independent, high-level focus on the adequacy of governance, risk and control. It sets out the committee should be independent in sharing no membership with the council executive and performing an advisory, non-political role. It should be accountable to full council, including providing an annual report on its work and effectiveness. It should also have full rights of access to reports, officers and appropriate training and support and be prepared to advocate to ensure resources are targeted to support good governance and addressing any significant control failings or overall weaknesses.
- 5.4. Going slightly beyond the Government's position, the guidance calls for a minimum of two independent members to add technical expertise and raises the possibility that councils might consider having an independent Chair.
- 5.5. The guidance sets out what it describes as the core functions of an audit committee in a local authority:
- *Oversight of Governance, Risk & Control*
 - *Including good governance, monitoring ethical frameworks, risk management, internal controls, value for money arrangements, countering fraud and corruption and maintaining good governance across partnerships and collaborations.*
 - *Accountability of Public Reporting*
 - *Including both statutory financial statements and the annual governance statement.*
 - *Assurance and Audit Arrangements*
 - *Including oversight of internal audit, and visibility on the work of external audit and other inspections agencies, supporting their independence, quality and effective relationships with the Council and its officers.*
- 5.6. The guidance also includes details of what it describes as the core knowledge and expertise needs of audit committees. It suggests committees should actively assess themselves against those needs and make arrangements for further training or membership where needed. This would form part of a

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committee self-assessment the guidance proposes be undertaken at least annually. In particular, the guidance notes the increasing complexity of financial reporting, with a specific suggestion that committees should take care to ensure their expertise in this field is sufficient to allow effective and supportive challenge to officers

6. CIPFA Guidance Implications for Lewisham

- 6.1. The Council's Audit Panel, as currently constituted, materially conforms with CIPFA's guidance. Its scope encompasses internal and external audit, risk management and counter fraud plus has a membership excluding members of the executive but including independent lay members.
- 6.2. Notwithstanding, the publication of this guidance provides an opportunity look again at the Panel's remit. In particular its position within the Council's overall committee structure, its scope in considering partnership working and its reporting and self-review responsibilities.
- 6.3. At Appendix A officers have prepared a sample terms of reference. This document draws from the model terms of reference included in the full version of CIPFA's guide, tailored for Lewisham's constitutional format and individual circumstances, as set out in Appendix B. We invite Panel Members to comment on this draft.
- 6.4. Also, noting the increased emphasis on training and support, Panel Members may wish to consider in developing the 2023/24 work programme for the Panel additional training and support that may assist.

7. Financial implications

- 7.1. There are no direct implications arising from this report, which is for information and discussion rather than decision.

8. Legal implications

- 8.1. There are no direct implications arising from this report, which is for information and discussion rather than decision.

9. Equalities implications

- 9.1. There are no direct implications arising from this report, which is for information and discussion rather than decision.

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10. Climate change and environmental implications

10.1. There are no direct implications arising from this report, which is for information and discussion rather than decision.

11. Crime and disorder implications

11.1. There are no direct implications arising from this report, which is for information and discussion rather than decision.

12. Health and wellbeing implications

12.1. There are no direct implications arising from this report, which is for information and discussion rather than decision.

13. Background papers

13.1. Background papers are hyperlinked through the report.

14. Report author(s) and contact

14.1. Rich Clarke, Head of Assurance. Telephone 020 8314 8730.

15. Appendices

15.1. Included within this report

- *Appendix A: Example Audit Committee Terms of Reference*
- *Appendix B: Comparison of Example with Current Terms of Reference*

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Appendix A: Example Audit Committee Terms of Reference

Numbers in parentheses link to the specific further information in Appendix B.

(1) Composition: 6 non executive Councillors, one of whom shall serve as chair and up to 3 independent co-opted members. **(2)** The Chair has a free and unfettered right of access to internal and external auditors, including the opportunity for private meetings as required.

(3) Role: To provide an independent and high-level focus on the adequacy of governance, risk and control arrangements, giving the Council greater confidence that those arrangements are effective. In particular the Committee will receive, review and where appropriate advise and make recommendations to the Council on the following:

- **(4)** The Council's overall corporate governance arrangements, including conformance with its local code of governance, arrangements to secure value for money and CIPFA's Financial Management Code. This role extends to arrangements for significant partnerships or collaborations involving the Council.
- **(5)** The effective development and operation of risk management in the Council, including risk-related issues reported to the Committee.
- **(6)** The Council's management of risks and potential harm from fraud and corruption, including counter fraud strategy, actions and resources.
- **(7)** The Council's Annual Governance Statement, including the Head of Internal Audit's Annual Opinion, and progress on actions arising.
- **(8)** The Council's Annual Statement of Accounts, including selection and application of appropriate accounting policies and action plans to address issues arising from the external auditors' reports.
- **(9)** The independence and effectiveness of the external auditor, including review of specific reports as agreed with the auditor and any matters raised by PSAA.
- **(10)** The Council's Internal Audit Charter, including arrangements for provision of internal audit and supporting its independence and objectivity.
- **(11)** The Council's risk-based internal audit plan, including internal audit's resource requirements and reliance on other sources of assurance.
- **(12)** Reports from the Chief Audit Executive on aspects of internal audit's work, including conformance with PSIAS, key findings, actions arising and progress toward implementation.
- **(13)** The development of Internal Audit and its external quality assessment that takes place at least every five years.
- **(14)** The Committee's own work and development (for example, review of the Council's financial and procurement regulations), including an annual report to Council on its effectiveness and compliance with the CIPFA Position Statement.

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Appendix B: Reconciliation of Example Terms of Reference against Current Panel Terms and CIPFA Guidance

Highlighted sections indicate notable amendments or additions in comparison to the current Audit Panel Terms of Reference.

Ref	Audit Panel - Now (reordered to align to example)	Audit Committee - Example	Comment
1.	Composition: Consisting of 6 non executive Councillors, one of whom shall serve as chair and up to 4 independent co-opted members	Composition: 6 non executive Councillors, one of whom shall serve as chair and up to 3 independent co-opted members.	The Council may wish to consider how many independent Members it should seek to cover the areas of expertise it must cover, especially in the light of CIPFA's guidance now recommending that all councils seek independent support.
2.		The Chair has a free and unfettered right of access to internal and external auditors, including the opportunity for private meetings as required.	While this has been operating previously it is formalised here in line with the CIPFA guidance.
3.	To receive, review and where appropriate advise as appropriate and make recommendations to the Council * on the following matters:	To provide an independent and high-level focus on the adequacy of governance, risk and control arrangements, giving the Council greater confidence that those arrangements are effective. In particular the Committee will receive, review and where appropriate advise and make recommendations to the Council on the following:	Change provides helpful clarity to purpose of the Committee as well as what it should focus its work on reviewing (reflected in a general move to a more active sense in the written terms of reference).

Ref	Audit Panel - Now (reordered to align to example)	Audit Committee - Example	Comment
4.	<p>The Council's assurance arrangements including the Statement of Internal Control.</p> <p>The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit.</p>	<p>The Council's overall corporate governance arrangements, including conformance with its local code of governance, arrangements to secure value for money and CIPFA's Financial Management Code. This role extends to arrangements for significant partnerships or collaborations involving the Council.</p>	<p>Replacing the outdated "Statement of Internal Control" wording, now covered in reference 7 comments on the Annual Governance Statement.</p> <p>Any significant role with respect to partnerships or collaborations would have to reflect any existing scrutiny or legislative arrangements to minimise duplication.</p>
5.	<p>The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.</p>	<p>The effective development and operation of risk management in the Council, including risk-related issues reported to the Committee.</p>	<p>Splitting out points on risk (5), control (3) and fraud (6) to emphasise singular focus.</p>
6.		<p>The Council's management of risks and potential harm from fraud and corruption, including counter fraud strategy, actions and resources.</p>	<p>See point 5. above</p>
7.	<p>External inspection reports and specific reports as agreed with the external auditor.</p>	<p>The Council's Annual Governance Statement, including the Head of Internal Audit's Annual Opinion, and progress on actions arising.</p>	<p>Like above, splitting out work on VFM conclusion (4), accounts opinion (8) and Annual Governance Statement (7) to emphasise focus.</p>

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Ref	Audit Panel - Now (reordered to align to example)	Audit Committee - Example	Comment
8.	The Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive.	The Council's Annual Statement of Accounts, including selection and application of appropriate accounting policies and action plans to address issues arising from the external auditors' reports.	
9.	The external auditor's Annual Plan, relevant reports, and reports to those charged with governance.	The independence and effectiveness of the external auditor, including review of specific reports as agreed with the auditor and any matters raised by PSAA.	Depending on its eventual role, it may be useful for the terms of reference to also mention the Audit, Reporting and Governance Authority (ARGA) which will take on a "system lead" role in public audit. Note also these terms reflect the Council having opted into the PSAA arrangements for arranging external audit appointments.
10.	Internal Audit progress reports on a quarterly basis summarising the audit reports issued and performance of the Internal Audit function.	The Council's Internal Audit Charter, including arrangements for provision of internal audit and supporting its independence and objectivity.	Slightly abridged terms of reference reflecting that much of the detail is included within the Internal Audit Charter (which is a requirement of Audit Standards).

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Ref	Audit Panel - Now (reordered to align to example)	Audit Committee - Example	Comment
11.	The review and approval of the Council's Internal Audit strategy, plans and resources.	The Council's risk-based internal audit plan, including internal audit's resource requirements and reliance on other sources of assurance.	Slightly expanded note reflecting the risk-based nature of internal audit as described in Audit Standards.
12.	Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame.	Reports from the Chief Audit Executive on aspects of internal audit's work, including conformance with PSIAS, key findings, actions arising and progress toward implementation.	
13.	The annual report of the Council's Head of Internal Audit and Inspection Agencies.	The development of Internal Audit and its external quality assessment that takes place at least every five years.	
14.	An overview of the Council's Constitution in respect of audit procedure rules, contract procedure rules, and financial regulations.	The Committee's own work and development (for example, review of the Council's financial and procurement regulations), including an annual report to Council on its effectiveness and compliance with the CIPFA Position Statement.	Tailoring specifically to Lewisham; there may be merit in specifying work on financial and procurement regulations, especially any that lie outside of the Constitution.

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Ref	Audit Panel - Now (reordered to align to example)	Audit Committee - Example	Comment
15.	* Any advice and recommendations made by the Audit Panel shall be referred to the Chief Executive and/or Executive Director of Corporate Services who shall refer the matter to the appropriate Council decision maker for consideration.		This provision would be redundant for a Committee constituted as a full committee of the council with direct reporting lines to the full Council.

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