



Committee report

Committee	AUDIT COMMITTEE
Date	20 MARCH 2023
Title	AUDIT COMMITTEE ANNUAL REPORT 2022-23
Report of	CHAIRMAN OF THE AUDIT COMMITTEE

EXECUTIVE SUMMARY

1. This report is the annual report to the Audit Committee, in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) position statement for audit committees issued in 2022.

RECOMMENDATION

2. The Audit Committee notes the Audit Committee chair's Report for 2022/23.

BACKGROUND

3. In its position statement for audit committees in local authorities, CIPFA set out that committees should:
 - report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.
4. It is noted that the last chair's annual report was published in 2019/20. The work of the committee was affected by COVID. Council elections took place in 2021 resulting in a new chair being appointed and the majority of committee members being new to the Audit Committee.
5. Due to these factors, in consultation with the Chief Internal Auditor, publication of annual reports was suspended for both 2020/21 and 2021/22.
6. The CIPFA position statement sets out audit committee practice and principles that should be adopted under headings listed below (and on which this report has been structured):
 - Independent and effective model
 - Core functions
 - Audit committee membership
 - Engagement and outputs
 - Impact

INDEPENDENT AND EFFECTIVE MODEL

7. The CIPFA position statement sets out that:
The committee should:
 - be directly accountable to the authority's governing body
 - be independent of both the executive and the scrutiny functions
 - have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
 - have rights to request reports and seek assurances from relevant officers
 - be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.
8. The committee is established by the council's constitution as a full committee with accountability to Full Council. Its terms of reference are set by Full Council.
9. Full Council at its meeting of May 2022 resolved that it be confirmed that the terms of reference of the Audit Committee includes considerations of proposals to revise the constitution, and that the constitution be so amended by the Monitoring Officer to make this clearer.
10. The constitution sets out that: "Audit Committee members should ideally not be Cabinet members or ideally not members of a Scrutiny committee due to potential conflicts of interest."
11. Isle of Wight Council's relatively small overall membership (39) has made meeting this challenging. Four members (a majority) of the committee are not Cabinet members or members of a scrutiny committee, including the chair since May 2022. A Cabinet member resigned from the committee noting that a change of responsibilities could lead to a conflict of interest. The remaining Cabinet member has identified any conflicts and taken no part in proceedings where necessary.
12. The committee has a constructive relationship with the scrutiny committees, including referring matters to them for their possible consideration. In addition, the chair of the Audit Committee and the chair of the Corporate Scrutiny Committee meet regularly to discuss matters of particular concern.
13. The chair of the committee is regularly briefed on risk management reports by appropriate council officers. A recent meeting was held to discuss the emergent strategic risks on the cost-of-living crisis and coastal defences.
14. The committee's membership is not large and is set at seven members. At present, there is a vacancy for one member. The political balance is in line with the requirements for overall proportionality across committees.

CORE FUNCTIONS

15. The CIPFA position statement sets out that:

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

16. The statement sets out specific responsibilities which are discussed under the italicised headings below. The statement lists the following:

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.
- Establishing appropriate and effective arrangements for audit and assurance
- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - to support effective arrangements for internal audit
 - to promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

17. In line with its constitutional terms of reference, the above is achieved through the committee receiving:

- Regular reports from the council's internal auditors, who carry out a programme of reviews across all aspects of the council's business. The committee has input into deciding what the internal auditors will look at when it considers the draft internal audit plan. It also sees the results of their work as the year progresses and the annual overall audit opinion. Any serious

issues of risk or weaknesses in internal control are therefore likely to be identified and brought to the committee's attention.

- Reports from the council's external auditors who have a range of statutory responsibilities to fulfil. The committee acts as the body as 'those charged with governance' and receives an annual report from the external auditors on the council's financial governance. The work of the external auditors provides the committee with an entirely independent opinion on the council's financial affairs, its accounting arrangements and on whether it secures value for money.
 - Regular reports on the status of the council's strategic and other risks, and an annual report on the council's risk management arrangements. It therefore has an opportunity to judge whether those arrangements are adequate and whether the management of risk is robust.
 - Regular reports on the council's procurement activities and can enquire into any issues which relate to the council's procurement procedures. The committee's terms of reference also include the role of reviewing and approving the council's contract standing orders.
 - The council's Treasury Management Strategy, which has the potential to be a significant risk to the council. This strategy is recommended to full council for approval as part of the annual budget process. The committee receives regular updates on the performance of the council's treasury management activity.
 - The council's draft and final accounts and therefore receives assurance that the council's financial transactions have been properly accounted for.
 - The council's Annual Governance Statement which sets out how the council meets its governance requirements. This statement is approved by the committee at the same time as the annual accounts.
 - The council's Financial Regulations and Contract Standing Orders and approves any proposed changes to them.
 - Annual reports on the level of whistle blowing and counter fraud activities within the council.
 - Annual progress report on the performance of the council's property portfolio.
18. Members of the committee constructively challenge the reports through questions to cabinet members and council officers normally present at the meeting, or whose attendance has been requested specifically.
19. The committee has maintained the practice of receiving full reports on audits which have been assessed at limited assurance or less. On specific items it has requested follow-up reports to satisfy itself of progress. Examples are the development of the new council website and issues relating to the IT system, Technology Forge.

20. The committee has paid particular interest to the risk register, identifying ways in which its presentation and content could be developed to make it more readily understandable.
21. As part of the report preparation process, the chair has the opportunity to comment on a number of draft reports and raise questions.
22. Where issues of concern to committee members are outside of the scope of the Audit Committee's terms of reference, scrutiny committees have been requested they give them consideration.
23. On the specific matter of future external audit arrangements, these were considered by the committee in December 2021 with a recommendation presented to Full Council which resolved to adopt it.

AUDIT COMMITTEE MEMBERSHIP

24. The CIPFA position statement sets out that:

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
 - A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
 - A strong, independently minded chair, displaying a depth of knowledge, skills, and interest.
 - There are many personal skills needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - maintaining the focus of the committee on matters of greatest priority.
 - Willingness to operate in an apolitical manner.
 - Unbiased attitudes – treating auditors, the executive and management fairly.
 - The ability to challenge the executive and senior managers when required.
 - Knowledge, expertise and interest in the work of the committee.
25. While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.
 26. The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

27. Specialist training was arranged for members of both the Audit Committee and scrutiny committees in July 2022, though few members were able to attend. The chair attends (online) a sector wide forum for Audit Committee chairs, which provides an opportunity to share and disseminate good practice.
28. The chair and vice-chair re-assessed the effectiveness of the Audit Committee against CIPFA guidance, assisted by internal audit officers in the autumn of 2022.
29. The key issue identified is the desirability of co-opting to the committee someone to provide specialist input. This would also be in line with a recommendation from the 2020 Redman Review.
30. All committee members are mindful of the need for unbiased attitudes and have engaged in their responsibilities in an apolitical manner.
31. The chair has been specifically mindful of the specific requirements and has sought to ensure that they have been met as the committee has conducted its business.
32. It is desirable for the committee to engage directly and separately with its external auditors. The chair has arranged for meetings to take place with either himself or with the committee ahead of meetings of the Audit Committee.

ENGAGEMENT AND OUTPUTS

33. The CIPFA position statement sets out that:

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs. To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

34. The committee remit is clearly defined in its terms of reference, contained in the council's constitution.
35. The committee meets four times annually, aligned with financial quarters and the finalisation of key deliverables, for example the annual accounts. The procedure

how any confidential items should be considered is set out in the constitution. This was not necessary during 2022/23.

36. Regular meetings are held between the chair and the council's Chief Internal Auditor. At least annually, the committee meets with the external auditors without officers present.
37. Senior officers, included the Chief Executive, Director of Finance, Monitoring Officer and directors regularly attend Audit Committee meetings. The Chief Internal Auditor always attends Audit Committee meetings. Other officers are requested to attend meetings when there are agenda items where their attendance supports the committee in exercising its oversight role.
38. The committee has an annual work programme and formally reports on its activity annually, through this report (see elsewhere in this report regarding prior years when this has not taken place).

IMPACT

39. The CIPFA position statement sets out that:

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

40. In carrying out its business, the committee has commented on reports and questioned council officers and Cabinet members where necessary. In addition, questions and comments on draft reports are raised by the chair leading to appropriate changes in the final reports.
41. The chair has also taken opportunities to invite feedback from council officers and from the external auditors on the work of the committee, and his work as chair.
42. A formal process for assessing impact is not in place. Feedback from council officers and others is that the committee is engaging appropriately. Committee minutes identify key questions and concerns raised. At times, the committee has made formal resolutions such as to receive follow-up reports on audits which have been assessed as limited assurance or less.
43. In the coming year, the committee will work toward co-opting an independent member with appropriate knowledge and experience.
44. Work will also take place to ensure that appropriate training is in place for committee members.
45. Work will also take place to identify ways in which the committee's impact may be formally assessed.
46. The chair has discussed with the chief executive the possibility of observing consideration of risk management by senior officers from time to time.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

47. The Audit Committee plays an important role in the council's governance arrangements as its terms of reference require it to provide independent assurance of the adequacy of the risk management framework and the associated control framework including independent scrutiny of the council's financial and non-financial performance. In particular, this is by ensuring the adequacy and effectiveness of risk management arrangements, the committee ensures that risks to the council achieving its aims, both strategic and operational are appropriately managed.

Responding to climate change and enhancing the biosphere

There are no direct impacts within this report that will affect this corporate priority.

Economic Recovery and Reducing Poverty

There are no direct impacts within this report that will affect this corporate priority.

Impact on Young People and Future Generations

There are no direct impacts within this report that will affect this corporate priority.

Corporate Aims

As above.

FINANCIAL / BUDGET IMPLICATIONS

48. While there are no direct financial implications arising from this report, the committee plays a significant part in overseeing the financial governance of the council, not least by reviewing the council's financial statements and in being the focal point for the outcomes of both internal and external audit.

LEGAL IMPLICATIONS

49. Again, while there are no direct legal implications of this report, the committee does play an important part in the council's governance arrangements and by receiving assurance from both internal and external auditors concerning the legality of council expenditure, and in terms of the compliance with its statutory and regulatory responsibilities through the terms of references of internal audit reviews.

EQUALITY AND DIVERSITY

50. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. Following an initial screening it is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

RISK MANAGEMENT

51. There are no direct risk issues associated with this report. It is important that the work of the committee is reported on at least on an annual basis and that the Full Council has an opportunity to review the committee's activities.

BACKGROUND DOCUMENTS

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

<https://www.cipfa.org/-/media/Files/Services/Support-for-audit-committees/CIPFA-Audit-Committee-Position-Statement-2022.pdf>

Contact Point: Councillor Andrew Garratt, chair of the Audit Committee
e-mail Andrew.Garratt@iow.gov.uk

CLLR ANDREW GARRATT
Chair of the Audit Committee