

AUDIT AND ASSURANCE COMMITTEE

Meeting date: 9 March 2023

From: Interim Director of Finance (S151 Officer)

ANNUAL REPORT AND REVIEW OF AUDIT & ASSURANCE COMMITTEE EFFECTIVENESS 2022/23

1.0 EXECUTIVE SUMMARY

- 1.1 *This annual report provides a review of the work of the Audit and Assurance Committee and assesses its effectiveness against the core functions of an audit committee as defined within the CIPFA Position Statement on Audit Committees in Local Authorities and Police 2022.*
- 1.2 *The Council is required under the 2016 Delivering Good Governance Framework, to include within its Annual Governance Statement reference to and assessment of the effectiveness of key elements of the governance framework including the Audit Committee.*
- 1.3 *This assessment has been undertaken against CIPFA's 2022 publication Audit Committees: Practical guidance for Local Authorities and Police.*
- 1.4 *An analysis of how the Committee matches the core functions of an Audit Committee as set out in CIPFA Position Statement on Audit Committees in Local Authorities and Police 2022 is included in Appendix 1.*
- 1.5 *The key change in CIPFA's view from 2018, where it recommended Councils 'actively exploring appointing one non-elected member to its audit committee', is that in April 2022 it recommends Councils 'should include at least two non-elected members on its audit committee' Given the timing of CIPFA's revised Position Statement in April 2022, and the pending local government reorganisation in Cumbria, it will be a matter for the two new unitary councils to consider how they will seek to meet the requirement to have at least two co-opted independent members on their Audit Committee.*

2.0 POLICY POSITION, BUDGETARY AND EQUALITY IMPLICATIONS, AND LINKS TO COUNCIL PLAN

- 2.1 *The Audit and Assurance Committee performs a key role in reviewing the Council's overall systems of governance, risk management and internal control.*

3.0 RECOMMENDATION

- 3.1 ***Members are asked to note the annual report and confirm the assessment of conformance with the core functions of an audit committee per the 2022 CIPFA Guidance as set out at Appendix 1.***

4.0 BACKGROUND

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

- 4.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) issued its Position Statement: Audit Committees in Local Authorities and Police 2022 in April 2022, which replaced the 2018 position statement. The supporting detailed guidance was expected to be published in June 2022, but was delayed, and only published in October 2022. Despite the delay in issuing the detailed guidance CIPFA has confirmed that the annual assessment of audit committee effectiveness should be based on the new Position Statement for 2022.
- 4.2 There is a lot of continuity between CIPFA's 2018 Position Statement and the 2022 Statement with the strengthening of some aspects. The key change is the recommendation for local authority audit committees to have at least two co-opted independent members to provide appropriate technical expertise. In addition, there is now a requirement to publicly publish an annual report which sets out how the audit committee has complied with the position statement, discharged its responsibilities, and assessed its performance.
- 4.3 In January 2021 the Audit and Assurance Committee considered a report on the outcome of the Redmond Review on 'Local Audit and the Transparency of Local Authority Financial Reporting'. The recommendation here was that Councils should 'Consider appointing at least one independent non-elected member, suitably qualified, to the Audit Committee'.
- 4.4 CIPFA's 2018 Position Statement highlighted that audit committees should explore appointing one independent non-elected member. The Redmond Review recognised the challenge in 'attracting independent members with the relevant technical expertise' and that it may be more difficult in some geographical areas.
- 4.5 In the January 2021 report it was proposed that the Constitution Review Group consider the benefits and pitfalls of appointing an independent non-elected member, or members, to the Audit and Assurance Committee. The timing of any such review was still to be agreed. The expectation was that that MHCLG was to work with CIPFA, NAO and LGA to provide new guidance on the appointment of independent members to Audit Committees.
- 4.6 CIPFA's change from 'actively explore' in 2018 to 'should include' in 2022, and the move from one non-elected member to at least two, reflects the debate outlined in the Redmond Review. However, as CIPFA's revised Position Statement was only published in April 2022, and the pending local government reorganisation in Cumbria, it will be a matter for the two new unitary councils to consider how they will seek to meet the requirement to have at least two co-opted independent members on their Audit Committee.

- 4.7 The Audit and Assurance Committee has, for several years, published its annual review of the Committee's effectiveness and this has also included broader commentary on the work it has undertaken, which is in line with what would be included within an annual report. For 2022/23, this report has been renamed 'Annual Report and Review of Audit and Assurance Committee Effectiveness 2022/23' to make this clear. Where required, some additional wording has been added to meet the requirements of an annual report.

Membership, attendance, and reporting output from the Audit and Assurance Committee

- 4.8 The Chair of the Committee was appointed to the role in July 2017 and the Vice Chair was appointed in April 2021. Both have continued in their respective roles throughout 2022/23. There are 5 other elected members on the Committee and, where any member of the Committee cannot attend, named substitutes will attend in their place, if possible. The Committee membership is politically balanced, and the Committee has demonstrated that it can, and does, act independently. As outlined earlier, the Committee does not include any non-elected independent members.
- 4.9 Key officers also regularly attend the Committee. These include, the Director of Finance (s151 Officer), Chief Legal Officer (Monitoring Officer), Group Audit Manager (Chief Internal Auditor), Senior Risk Officer and representatives from Grant Thornton (the external auditor). All these officers have direct access to, and regular contact, with the Chair of the Committee. In addition, other officers will attend the Committee as and when required.
- 4.10 Members of the Committee receive training, and separate briefing sessions, as required, to ensure that they have the knowledge to understand the issues, particularly very technical matters, being considered and the ability to challenge officers. The Chair allows sufficient time for debate and ensures that each member can express their views and has the opportunity to ask questions. Where required, the Committee can refer issues to other committees, or the full Council, for their consideration.
- 4.11 There is a twelve month 'Forward Plan' of agenda items for the Committee and this is reviewed at each meeting to ensure that it remains valid and is flexed to accommodate any matters that may emerge during the year. Minutes of the Audit and Assurance Committee are taken and approved at the next meeting. After each meeting, the Chair presents a summary of the key points discussed to the next full Council meeting.

The work of the Audit and Assurance Committees in 2022/23

- 4.12 The Audit and Assurance Committee has pursued its work programme throughout 2022/23, building on its activities in recent years. The Committee met five times during 2022/23. Meetings were held on 30 June 2022, 8 September 2022, 18 November 2022, 6 December 2022 and 9 March 2023.
- 4.13 On 30 June 2022, the Committee received the annual internal audit report which concluded that there was reasonable assurance over the Council's arrangements for governance, risk management and internal control for 2021/22. In addition, the Committee received the Quarter 4 update on the Corporate Risk Register for 2021/22 and the draft Corporate Risk Register Refresh for 2022/23.

- 4.14 At its meeting on 30 June 2022, the Committee also received a report from the Monitoring Officer on the draft Annual Governance Statement (AGS) for 2021/22. The Monitoring Officer advised that no significant governance issues had been identified. Therefore, there was no need for an action plan from the 2021/22 Annual Governance Statement or regular progress updates to the Committee in 2022/23. She provided assurance that the impact of the COVID-19 pandemic on the Council's governance arrangements throughout the year had been fully considered. The Committee was told that local government reorganisation in Cumbria would continue to have a significant impact on the Council's governance arrangements during 2022/23.
- 4.15 The meeting on 8 September 2022 considered the refreshed 2022/23 Corporate Risk Register (Quarter 1 of 2022/23). The Senior Information Risk Owner (SIRO) presented the annual report on Information Governance. 2021/22 and the committee examined the Local Government Social Care Ombudsman Annual review letter for 2021/22.
- 4.16 The Committee has responsibility for approving the annual Statement of Accounts. Annual training is sought from officers to assist in this significant responsibility with additional training provided on accounting estimates. The Committee also seeks assurances from the external auditor that the accounts present a true and fair view of the Council's financial position.
- 4.17 The Committee approved the Audited Port of Workington Harbour Accounts for 2021/22 at its meeting on the 18 November 2022. The Committee also received and approved the Council's final Annual Government Statement but agreed to delegate authority to the Interim Chief Legal Officer (Monitoring Officer) and Director of Finance (s151 Officer), in consultation with the Chair and Vice-Chair, to make any changes that might be needed to ensure the Annual Governance Statement is up to date at time of publication.
- 4.18 At the meeting on the 18 November 2022 the Committee approved the Cumbria County Council Accounts 2021/22, as presented, which incorporate the Cumbria Local Government Pension Scheme Accounts. As the external audit was not fully complete members agreed to delegate authority to the Director of Finance, as the Council's 151 (Local Government Act 1972) Officer, to agree any further changes to the accounts resulting from the audit process, in consultation with the Chair and Vice-Chair on behalf of the Council, as long as those changes are neither significant nor material.
- 4.19 It was agreed that, should the remaining work by the external auditor result in any significant or material changes, then a special meeting of the committee will be convened to consider the amended accounts. A material adjustment was required in respect of infrastructure assets arising from the CIPFA Code issued in January 2023 (Bulletin 12). As a result of this a briefing session is planned before the Audit & Assurance Committee on the 9 March 2023. Final approval of the 2021/22 audited accounts for Cumbria County Council, including the Cumbria Local Government Pension Scheme, will be made at the Audit and Assurance Committee meeting on 9 March 2023. prior to them being signed by the Interim Director of Finance (S151 Officer).

4.20 The Committee continued to monitor the effectiveness of the Council's arrangements for risk management. The corporate risk register has been a regular item on the Committee's agendas and assurances have been provided that risk management arrangements are both robust and effective. During the year the Committee has requested Assistant Directors and Senior Managers to give the Committee 'Deep dive' presentations on selected risks from the corporate risk register, allowing the Committee to gain a deeper understanding of those risks and the arrangements in place to manage them.

4.21 Deep dive presentations were received during the year on:

- financial sustainability;
- the local government reorganisation programme to deliver two new unitary councils;
- the assurance arrangements for the transfer of adult social care;
- provider services and the care sector to the two new unitary councils; and
- transition planning.

4.22 The Committee has continued to receive regular progress reports on the work of Internal Audit. The Committee has welcomed and supported the approach adopted by Internal Audit during 2022/23 in terms of moving reviews around if issues arose with starting planned reviews, commencing as much of the planned work for quarter 3 of 2022/23 in late Q2 or early Q3, and using staff flexibly. Also the sensitivity the Internal Audit team has used when respecting the pressures on others while still ensuring sufficient audit coverage to enable the Group Audit Manager to deliver the earlier draft annual opinion.

4.23 The Committee has continued to take a particular interest in the outcomes of Internal Audit's follow-up work. Of the 5 follow ups completed, or at draft report stage all 5 (100%) have resulted in improved assurance ratings with 4 now reasonable assurance with the other now partial assurance

4.24 The agenda for the Committee's meeting on the 9 March 2023 will be different to normal. As well as some usual agenda items, it will consider items normally considered at an earlier meeting, items brought forward earlier than normal due to local government reorganisation and it will not consider certain items it would normally, due to the demise of the Council on 31 March 2023 and delays in the publication of CIPFA accounting guidance. These can be summarised as follows:

- **Normally considered at earlier meeting** – final approval of the 2021/22 audited accounts for Cumbria County Council including the Cumbria Local Government Pension Scheme
- **Brought forward earlier than normal due to local government reorganisation:**
 - Draft Internal Audit Annual Report 2022/23
 - Draft Annual Governance Statement (AGS) 2022/23
 - Senior Information Risk Officer (SIRO) and Information Governance Annual Report (covering the period April to December 2022)

- Annual Report and Review of Audit and Assurance Committee Effectiveness 2022/23

- 4.25 Local government re-organisation means that Cumbria County Council will cease to exist after 31 March 2023. This means that the Committee will not need to consider an Internal Audit Plan or Audit Charter for 2023/24 at its March 2023 meeting.
- 4.26 At its meeting on 24 March 2022 the Committee considered the internal audit plan for 2022/23. The Committee also considered the Audit Charter. The Charter is a key document required by the Public Sector Internal Audit Standards (PSIAS), which sets out the purpose, authority and responsibility of Internal Audit and ensures its independence. In addition, the Charter sets out the Committee’s commitment to ensuring that Internal Audit has access to all information considered necessary to undertake its work for 2022/23.
- 4.27 The Committee has continued to hold separate private meetings with external audit before each Committee meeting and the Chair, Vice Chair and I meet regularly with the Group Audit Manager and other officers to discuss agendas and papers.

Conclusion

- 4.28 The Audit and Assurance Committee compares well against the CIPFA core purpose statements for audit committees.

Interim Director of Finance (s151 Officer)

February 2023

APPENDICES

Appendix 1 How the Audit & Assurance Committee compares against the core functions of an Audit Committee as defined within the CIPFA Position Statement 2022.

IMPLICATIONS

Staffing: none
 Financial: none
 Property: none
 Electoral Division(s): none

Executive Decision

	No*
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Key Decision

	No*
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If a Key Decision, is the proposal published in the current Forward Plan?

		N/A*
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Is the decision exempt from call-in on grounds of urgency?

	No*
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If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?

		N/A*
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Has this matter been considered by Overview and Scrutiny?
If so, give details below.

	No*
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PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS

[including Local Committees]

No previous relevant decisions

CONSIDERATION BY OVERVIEW AND SCRUTINY

Not considered by Overview and Scrutiny

BACKGROUND PAPERS

No background papers

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Appendix 1 – Assessment of Audit and Assurance Committee Effectiveness against the core functions of an audit committee (CIPFA Guidance 2022)

Core functions of an audit committee	Y	P	N	Examples
Maintenance of governance, risk and control arrangements				
<p>Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.</p>	✓			<p>Audit & Assurance Committee reviews the draft and approves the final Annual Governance Statement (AGS), prior to sign off by the Leader and the Chief Executive.</p> <p>The Committee ensures that any significant governance issues identified within the AGS reflect their knowledge of the Council and that a robust action plan is in place to address any issues identified. No significant governance issues were identified in the 2021/22 Annual Governance Statement.</p>
<p>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.</p>	✓			<p>The Committee oversees risk management arrangements. The corporate risk register is reported quarterly to the Committee who challenge the content robustly to ensure that risks are properly reflected within the corporate risk register. The Committee also seeks assurances that risks are being effectively identified, assessed, and controlled.</p> <p>The Committee invites members of the Extended Leadership Team to give in-depth (referred to as 'deep dive') presentations on selected aspects of the corporate risk register, as determined by the Committee. This enables the Committee to gain a deeper understanding of those risks and receive direct management assurances that corporate risks are being effectively managed.</p>
<p>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.</p>	✓			<p>The Committee considers the quarterly update reports from Internal Audit which summarise findings from each individual audit review and outline controls in place and areas for improvement. It also considers the Internal Audit Annual Report which includes specific commentary on internal controls in operation during the year.</p> <p>The findings from the Internal Audit review of 'Progress on implementing CIPFA's Financial Management Code was reported to the Committee on 30 June 2022 with an overall assurance rating of</p>

Appendix 1 – Assessment of Audit and Assurance Committee Effectiveness against the core functions of an audit committee (CIPFA Guidance 2022)

Core functions of an audit committee	Y	P	N	Examples
				<p>'Reasonable'. The AGS reported that 'no significant areas of departure from the FM Code were identified'.</p> <p>The Committee receives reports from both external and internal audit which provide assurances on the arrangements in place for ensuring value-for-money and for managing the Council's exposure to fraud and corruption.</p> <p>Previously the Committee has had the opportunity to review the content of ethical policies prior to their approval by Full Council. These policies have included those for Whistleblowing and Anti-Fraud, Bribery & Corruption and the "Speak up" arrangements.</p>
Financial and governance reporting				
<p>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.</p>	✓			<p>Audit & Assurance Committee reviews the draft and approves the final Annual Governance Statement (AGS), prior to sign off by the Leader and the Chief Executive.</p> <p>The Committee ensures that any significant governance issues identified within the AGS reflect their knowledge of the Council and that a robust action plan is in place to address any issues identified. No significant governance issues were identified in the 2021/22 Annual Governance Statement.</p>
<p>Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.</p>	✓			<p>On behalf of the Committee, the Chair and Vice Chair receive regular briefings on the account's preparation and audit processes and there are formal reports on the accounts preparation.</p> <p>Audit & Assurance Committee receives annual training on the Statement of Accounts, with additional training provided on accounting estimates, to assist them with their responsibility to review and approve the Council's accounts.</p> <p>The Committee approved the audited accounts for 2021/22 of the Port of Workington Harbour on 18 November 2022. The audited accounts for 2021/22 for Cumbria County Council, incorporating the Cumbria Local Government Pension Scheme, will be approved on 9 March</p>

Appendix 1 – Assessment of Audit and Assurance Committee Effectiveness against the core functions of an audit committee (CIPFA Guidance 2022)

Core functions of an audit committee	Y	P	N	Examples
				2023. The Committee receives the external auditor’s reports and opinion on the accounts and their value-for-money commentary and seeks assurances on these as appropriate.
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.	✓			The Committee is aware of the Institute of Internal Auditors (IIA) ‘Three Lines Model’ as it is included in the Internal Audit Charter, which is approved by the Committee annually. It is also aware of the arrangements, and processes in place, to support the Annual Governance Statement.
<p>In relation to the authority’s internal audit functions:</p> <ul style="list-style-type: none"> • oversee its independence, objectivity, performance and conformance to professional standards • support effective arrangements for internal audit • promote the effective use of internal audit within the assurance framework. 	✓			<p>On the 24 March 2022 the Audit & Assurance Committee approved the Audit Plan for 2022/23 and the internal audit charter, which set out the arrangements in place to ensure the independence of internal audit is maintained. In approving the Audit Plan the Committee demonstrates its support for internal audit and the areas of work it covers.</p> <p>The Committee received regular progress reports from the Group Audit Manager and seeks its own assurances on the quality and robustness of the work undertaken, as well as on the adequacy of the management responses to internal audit recommendations. The Committee also agreed the approach to the follow-up work undertaken by Internal Audit.</p> <p>The Committee considers the Internal Audit Annual Report which includes the Annual Head of Internal Audit Opinion, a statement on compliance with the Public Sector Internal Audit Standards (PSIAS), details of Internal Audit’s Quality Assurance and Improvement Programme and progress on addressing the issues raised in the External Quality Assessment (EQA).</p> <p>The Chair and Vice Chair have access to the Group Audit Manager and there are paper review meetings prior to each meeting between the Chair, Vice Chair and Group Audit Manager, Executive Director,</p>

Appendix 1 – Assessment of Audit and Assurance Committee Effectiveness against the core functions of an audit committee (CIPFA Guidance 2022)

Core functions of an audit committee	Y	P	N	Examples
				Director of Finance (s151 Officer) and other Assistant Directors (as required). An annual private meeting/discussion between the Chair and the Group Audit Manager took place on 1 February 2023.
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.	✓			<p>Audit & Assurance Committee receives regular reports from external audit as well as reports from other inspectorates, as appropriate. The Committee considers the agreed action plans to respond to recommendations raised by external audit and progress made on the previous year’s recommendations.</p> <p>The Committee also receives assurances through the regular Annual Governance Statement updates, where required, in relation to matters identified by external inspectorates.</p>
Contribute to the operation of efficient and effective external audit arrangements , supporting the independence of auditors and promoting audit quality.	✓			<p>The Committee has previously considered the options available to it in terms of the procurement of external auditors. It approved the Council opting into the Sector Led Body national scheme (led by the PSAA) for local auditor appointments.</p> <p>The Committee has always been supportive of the independence of auditors and distinguishing between the role of audit and that of management.</p> <p>The Committee has considered reports on the outcome, and improvements required in response to, the Financial Reporting Council’s (FRC) quality inspections of Grant Thornton’s work (external auditor) and the External Quality Assessment (EQA) of the Council’s internal audit service.</p>
Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.	✓			Audit & Assurance Committee receives assurances that internal audit and external audit have effective dialogue in place to share information as appropriate. In response to the Redmond Review internal and external audit now meet formerly on a quarterly basis.