

BIRMINGHAM CITY COUNCIL**PUBLIC REPORT**

Report to:	AUDIT COMMITTEE
Report of:	Interim Director of Finance (s151 Officer)
Date of Decision:	28 June 2023
Subject:	IMPROVING THE EFFECTIVENESS OF THE AUDIT COMMITTEE – INITIAL ACTIONS
Wards affected: All	
1	Purpose
1.1	To provide a high-level brief on the role of the Committee and the immediate actions that are planned to help the Committee's effectiveness in carrying out those roles. There will be subsequent reports setting out the longer term and continuous agenda shaping and development plans for the Audit Committee.
2	Decisions recommended:
	Members are recommended to:
2.1	Note the high-level roles and functions of an Audit Committee
2.2	Approve the proposed immediate action of quarterly reviews of the internal audit plan and the training and development for Audit Committee described in Section 8.

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3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?
Yes, Good Governance, Value for Money, approval of the Statement of Accounts and Annual Governance Statement are key requirements of all Councils.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities, and other relevant implications (if any):
The statutory requirements for local authority accounting are set out in the Local Audit and Accountability Act 2014, supported by the Accounts and Audit Regulations 2015 (SI 2015 No 234, amended by SI 2021 No 263) or 'the 2015 Regulations'.
- 3.4 Will decisions be carried out within existing finances and resources?
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
None.

4 The role of the Audit Committee

- 4.1 Audit committees are a key component of a Council's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk, and control arrangements. The committee also has oversight of both internal and external audit together with the financial statements and Annual Governance Statement (AGS), to ensure that there are adequate arrangements in place for both internal challenge and public accountability. (The Audit Committee Member in a Local Authority, CIPFA, 2022)
- 4.2 CIPFA's Position Statement on Audit Committees categorises the responsibilities of the committee into three broad areas:
1. Supporting the establishment and maintenance of good governance, risk management and control arrangements.
 2. Supporting the establishment and maintenance of good arrangements for internal audit and external audit.
 3. Supporting accountability and public reporting, in particular the financial statements and the Annual Governance Statement, and other statements that accompany the financial statements.

This report will briefly describe each of these three areas. Further deep dives and detailed discussions of these areas will take place in due course.

5 Good Governance, Risk Management and Control

5.1 This area can at this stage be broken down into five headings:

Good Governance

5.2 This answers the question of whether the Council is being run in a way that allows it to achieve its desired sustainable outcomes. Audit Committee's role and Key Lines of Enquiry (KLOE) can be summarised as:

Role / Objective	Indicators	Audit Committee KLOE
Is the Council maintaining and monitoring Good Governance Arrangements	<ul style="list-style-type: none"> resources are directed in accordance with agreed policy and according to priorities there is sound and inclusive decision making there is appropriate stewardship of public assets and resources there is transparency and clear accountability for the use of resources to achieve desired outcomes for service users and communities. 	<ul style="list-style-type: none"> Over the course of the year, receive reports and assurances over the application of the governance arrangements in practice Ensure that a framework of assurance underpins the AGS Monitor implementation of recommendations or action plans to improve governance arrangements. identify, escalate, and oversee the improvement of any governance weaknesses

Risk Management

5.3 The Audit Committee needs to have a good understanding of the level of assurance the risk management arrangements provide when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

Role / Objective	Indicators	Audit Committee KLOE
Establish what risk management arrangements are in place:	<p>Governance of risk, including leadership, integration of risk management into wider governance arrangements and the ownership of and accountability for risk</p> <p>Strategies and policies are supported by adequate risk</p>	<p>Review Risk Management Policy and Strategy for effectiveness</p> <p>Following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.</p> <p>Monitoring the effectiveness of risk management arrangements</p>

	assessments and that risks are being actively managed and monitored	Supporting the development and embedding of good practice in risk management
	Effective and up to date Risk Register	Reviewing evaluation, assurance and audit reports on risk management and monitoring progress on improvement plans.

Internal Control

- 5.4 Internal Controls aim to balance the need and processes to 1) manage risks, whilst at the same time 2) enable the organisation to operate efficiently and effectively by allowing agreed policies and processes to be put into practice. This is called the internal control framework.
- 5.5 Controls may take different forms according to the risks that they are intended to manage and their purpose, e.g., access controls in IT, procurement rules, exception reports to pick up outliers, and data back-up data arrangements.
- 5.6 While a range of internal controls are essential, the Audit Committee should be conscious that too many controls could result in greater inefficiency or ineffectiveness in an operation.

Role / Objective	Indicators	Audit Committee KLOE
Establish if the Council has an appropriate level of internal control linked to the authority's attitude to risk	<p>Need to consider how effective is the control framework – has it any weaknesses</p> <p>Controls may also become outdated or otherwise no longer fit for purpose.</p> <p>Introducing new controls may incur additional costs or other resources.</p>	<p>Review Internal and external audit reports on specific controls</p> <p>Monitor implementation of recommendations from the above through regular updates from Internal and external audit</p>

Value for Money arrangements

- 5.7 The primary focus should be on the Council's arrangements for ensuring value for money rather than reviewing the actual performance achieved.

Role / Objective	Indicators	Audit Committee KLOE
Establish if the Council has the right mechanisms for and is actively pursuing better value for money.	The arrangements that are being put in place to achieve value for money and if these are being followed.	<p>Review Internal and external audit reports (aswell as other reports) on how effectively those arrangements work in practice.</p> <p>Monitor implementation of recommendations from the above through regular updates from Internal and external audit</p>

Countering Fraud & Corruption

- 5.8 The Council has responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption.
- 5.9 The Audit Committee's role is not simply investigating when fraud takes place, it is a lot before that, in ensuring the correct controls are in place to stop it happening.

Role / Objective	Indicators	Audit Committee KLOE
Oversight of the Council's arrangements for managing the risks from fraud and corruption, and providing assurance that they are fit for purpose	<p>The arrangements that are being put in place to counter fraud and corruption e.g., Counter fraud strategy.</p> <p>Ensuring counter fraud work is in line with the strategy</p>	<p>Reviewing the counter fraud strategy and whether it meets recommended practices</p> <p>Reviewing the annual counter fraud plan of activity and resources</p> <p>Monitoring the overall performance of the counter fraud function</p> <p>Overseeing any major areas of fraud identified and monitoring action plans</p>

6 **Arrangements for Internal Audit and External Audit**

- 6.1 The 'assurance framework' describes the various means through which the authority's leaders, managers and decision makers can trust that the policies and procedures they have approved are being implemented in practice and operating as intended. The Audit Committee should ensure that this assurance framework can be relied upon.
- 6.2 Both internal and external audit are key partners of the Audit Committee to provide the means to check if policies and procedures are both fit for purpose and operating and implemented as intended.

External Audit

- 6.3 The Audit Committee's role in relation to the external audit process has three principal aspects (The Audit Committee Member in a Local Authority, CIPFA, 2022)

Role 1: To provide assurance that the external auditor team maintains independence

The independence of auditors is critical for confidence in the audit opinion and audit process.

How:

Each year, the external auditor will disclose to the committee an assessment of whether it is independent

The Audit Committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised

Monitor the approval of non-audit work
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Role 2: To receive and consider the work of external audit.
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How:

The Committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit makes recommendations, the Audit Committee should discuss the action to be taken with managers and monitor the agreed action plan. The Committee should contribute to the Council's response to the annual audit report.

Role 3: To support the quality and effectiveness of the external audit process

How:

Act as an intelligent client – may need training and support to do this

Sets expectations for the auditor for the timely delivery of a high-quality audit.
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Support better engagement and interaction between auditor, Committee, and management.

Internal Audit

- 6.4 This is a key resource for the Committee and can be a major source of assurance, providing coverage across many areas that the Audit Committee will want to be aware of.
- 6.5 Therefore it is important that the Committee actively engages with it and holds it to account but also supports and has oversight of the internal audit arrangements.

Role 1: Ensure its independence, objectivity, performance, and professionalism

The independence of auditors is critical for confidence in the audit opinion and audit process.

How:

review or approve the following:

- the internal audit charter
- the risk-based internal audit plan
- the internal audit budget and resource plan

determine if there are any inappropriate scope or resource limitations on internal audit

receive the report on the external assessment of internal audit (at least once every five years), including its overall conclusion and any recommendations

Role 2: Support effective arrangements for internal audit

It should help ensure that the authority's internal audit is effective

How:

A service with access to sufficient and appropriate capacity and capability.

Supporting the organisation's attitude to and understanding of internal audit

A service that operates in accordance with Public Sector Internal Audit Standards

Role 3: Promote the effective use of internal audit within the assurance framework

That the Internal audit workplan is sufficient to be able to produce an overall assurance opinion at the year end

How:

Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance

Escalating internal audit recommendations where further action is needed.

Ensuring the audit plan is reviewing the appropriate areas and that important areas are not being missed out.

7 Accountability and public reporting arrangements

Annual Governance Statement (AGS):

- 7.1 The AGS is the key annual public report that requires the authority to evaluate the effectiveness of its governance arrangements. The AGS is an evaluation - an assessment of how good those arrangements are in practice, leading to an opinion on whether they are fit for purpose.
- 7.2 The Audit Committee plays a key role in reviewing the AGS prior to its final approval. The key considerations for Audit Committee should include:
- whether the AGS is an accurate representation of arrangements, consistent with other information known to the Committee.
 - Is the AGS an evaluation
 - Does it conform to required codes
 - Is there an appropriate action plan to implement the required improvements and if this is robust.
 - Is it user friendly for a lay reader

Statement of Accounts:

- 7.3 The role of the Audit Committee is to review the financial statements prior to approval. The Statements are the responsibility of all those charged with governance – the full member body – but the Audit Committee is delegated the responsibility of a detailed review.

- 7.4 Audit Committee responsibilities are:

Accounts preparation – Monitoring the status of both completion of the statements and liaison with the auditors before publication will be important for the Audit Committee. The Audit Committee will want assurance that the finance team can deliver a set of financial statements of appropriate quality in accordance with the statutory deadlines.

Reviewing the statutory Statements of Accounts – The Audit Committee should review the accounts prior to the final publication. The Audit Committee approves the Accounting Policies used to prepare the Accounts

- 7.5 The complexity and length of the financial statements can make it challenging for Audit Committee members to conduct a detailed and informed review of the Accounts. Committee members are supported through appropriate training and briefings focussing on key parts of the Statements. In the past PowerPoint presentations have been made to Committee to highlight the Statement's key messages and trends as well as deep dives into Property, Plant and Equipment disclosures, Valuations and Pension cost disclosures.

8 Proposed Future Agenda and Training items:

- 8.1 Quarterly review of the Internal Audit Plan: As stated above the Committee needs assurance that the Internal Audit Plan provides sufficient coverage of Risk Management, Good Governance and Control. A quarterly review will allow a continuous review of the Plan to ensure it remains appropriate as well

as early feedback of issues identified through the course of internal audit work.

- 8.2 Risk Management and Governance Training – Cipfa’s ‘The Audit Committee Member in a Local Authority’ states ‘To get the best out of internal audit, the Audit Committee’s understanding of and support for effective risk management and wider assurance arrangements is helpful.’ Risk Management training is to be organised to help the Committee better understand Risk Management, Good Governance and Assurance Framework.
- 8.3 Treasury Management and Investment risk Training – An externally led briefing / training session is being arranged to highlight these risks and lessons that can be learned from recent experiences in local government.

Signature:

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Fiona Greenway, Director of Finance (s151 Officer)