

Agenda Item	<b>5</b>
Report No	<b>AS/2/23</b>

## THE HIGHLAND COUNCIL

**Committee:**                    **Audit & Scrutiny Committee**

**Date:**                         **23<sup>rd</sup> March 2023**

**Report Title:**                **Updated CIPFA guidance on Audit Committees**

**Report By:**                    **Strategic Lead (Corporate Audit & Performance)**

### **1.                                    Purpose/Executive Summary**

- 1.1 This report provides details of updated guidance on Audit Committees issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) which sets its view on the audit committee practice and principles that should be adopted.

### **2.                                    Recommendations**

- 2.1 The Committee is invited to:
- i. consider the changes arising from the new guidance and position statement and in particular:
    - the recommendation that the Committee contains at least two co-opted independent members to provide appropriate technical expertise;
    - the requirement for the Committee to report annually on how it has complied with the position statement, discharged its responsibilities and include an assessment of its performance; and
    - the need to review the Committee terms of reference to comply with the new CIPFA position statement. Any proposed changes to the Committee remit would need to be reflected in the Scheme of Delegation and approved by Council.
  - ii. note that further work will be undertaken to implement the new guidance and Committee will be updated accordingly; and
  - iii. agree that the new annual reporting requirements will be applied for the financial year 2023/24 with the intent that the Committee's annual report will be presented for approval in June 2024 and thereafter published on the Council's website.

### **3.                                    Implications**

- 3.1 Risk – the new CIPFA guidance sets out the role of the audit committee in ensuring the effectiveness of the Council’s risk management arrangements.
- 3.2 Resources - there are no resource implications at this time. Any implications arising from potential changes in the future e.g. recruitment of co-opted members will be notified to Committee.
- 3.3 There are no Legal Community (Equality, Poverty, Rural and Island), Climate Change / Carbon Clever or Gaelic implications.

#### **4. CIPFA guidance for Audit Committees**

4.1 The “CIPFA guidance for Audit Committees” has recently been updated and published. It includes the following:

- (i) [Guidance for audit committee members](#) (hyperlink provided) to enable them to understand the purpose of the committee, its functions, and their responsibilities. The guidance also has several appendices including:
- Appendix B1 – a suggested terms of reference for the audit committee,
  - Appendix C – a knowledge and skills framework for audit committee members,
  - Appendix E – a self-assessment of good practice checklist for the audit committee; and
  - Appendix F – which provides a tool for evaluating the effectiveness of the audit committee.
- (ii) [A Position Statement](#) (hyperlink provided) which sets out roles and responsibilities, and good practice principles for audit committees. CIPFA states that audit committees are a key component of an authority’s governance framework, their purpose being to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The Position Statement also sets out the core functions of an audit committee:
- Maintenance of governance, risk and control arrangements;
  - Financial and governance reporting; and
  - Establishing appropriate and effective arrangements for audit and assurance.

CIPFA has also stated that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable them to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

- 4.2 There are a number of potential changes arising from the new guidance, the most significant being:
- the recommendation that audit committees contain at least two co-opted independent members to provide appropriate technical expertise. The guidance sets out various specialist areas of expertise which could add value to the committee, including accountancy, legal and IT systems and security knowledge.
  - the requirement for audit committees to report annually on how it has complied with the position statement, discharged its responsibilities and include an assessment of its performance. This must be published and timed to inform the Annual Governance Statement; and
  - the suggested audit committee terms of reference. Whilst not obligatory, the audit

committee self-assessment checklist includes questions to measure compliance against the terms of reference. Any change to the committee remit would need to be reflected within the Council's Scheme of Delegation. Therefore, this will be undertaken to ensure it can be included in the annual review of the Scheme reported to September Council.

- 4.3 Further work is necessary to consider the guidance and the implications. As an example, to appoint co-opted members, it would be necessary to first establish the skills and knowledge of the current audit committee members to identify any gaps where additional expertise is required. A committee role profile would need to be produced, an appointment term decided, a recruitment process agreed and then implemented. Research will also be undertaken to establish the approach being taken by other Councils.
- 4.4 It is proposed that the first committee annual report is prepared for the financial year 2023/24 and presented for approval in June 2024. This will tie in with the Chief Audit Executive's annual report which is presented in June each year. Both of these reports will be used to inform the Annual Governance Statement within the Council's Annual Accounts.

Designation: Strategic Lead (Corporate Audit & Performance)

Date: 10<sup>th</sup> March 2023

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