

Audit committees and scrutiny committees: working together

This paper has been produced with financial support from the LGA, as part of CfGS's contracted delivery of local government improvement services funded by the UK government.

Our thanks to colleagues at CIPFA, the NAO and the local councils and councillors who assisted us in the preparation of this document. Any errors are those of the author.

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June 2021

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Introduction



This is a guide for councillors on audit committees and scrutiny committees on how member-level activity on audit, and councils' scrutiny functions, can work more closely. It focuses in particular on how scrutiny can contribute productively to the core functions of Audit committees.

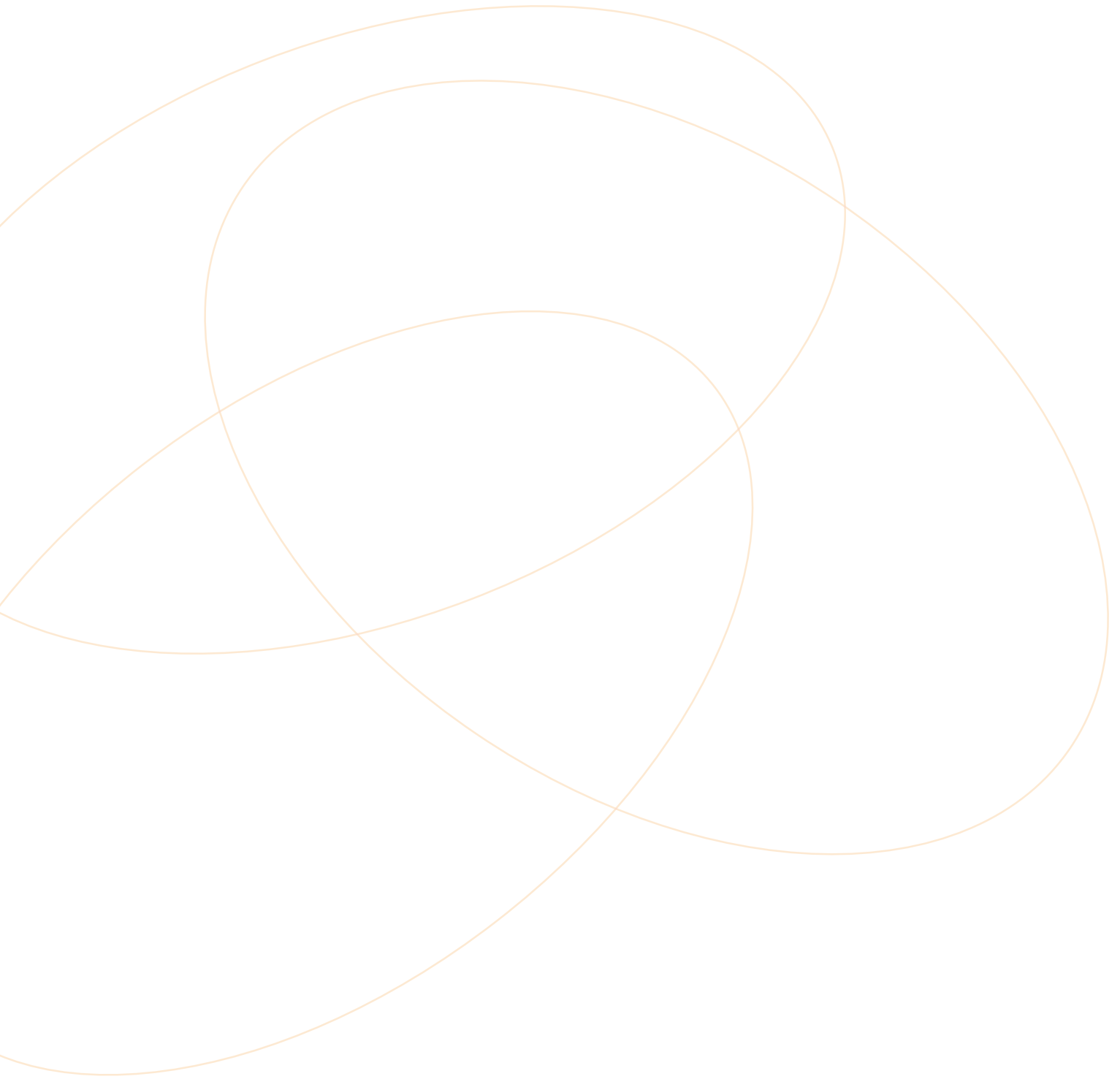
Effective, member-level oversight of financial matters is a cornerstone of good governance.

This paper should be read and acted on in conjunction with:

- “Audit committees: practical guidance for local authorities and police” (CIPFA, 2018);
- “Delivering good governance in local government: framework” (CIPFA, 2016)
- CIPFA Financial Management Code (CIPFA, 2019)
- “The Code of Practice on Managing the Risk of Fraud and Corruption” (CIPFA, 2015);
- “The financial scrutiny practice guide” (CfGS, 2020);
- “The governance risk and resilience framework” (CfGS/Localis, 2021);
- “The Code of Audit Practice” (NAO, 2020);
- Any recent updates to the Public Sector Internal Audit Standards.

This paper should also be read in the context of the statutory duties on financial held by the section 151 officer, as well as the statutory duties on good governance held individually and collectively by senior officers generally.

Executive summary



This paper suggests practical ways for councillors sitting on audit committees and scrutiny committees, and the officers supporting those roles, to share information and work together better. These people can work together to.

- Clarify the core roles of both functions;
- Have regular conversations about committees' work programmes, and responsibilities;
- Agree ways to ensure that issues can be passed between committees, avoiding duplication;
- Engage members of the audit committee on scrutiny task groups, or in budget scrutiny;
- Carry out work to develop the Annual Governance Statement and the scrutiny Annual Report;
- Spread awareness of the audit function (and councillors' roles in relation to audit) across the council's wider membership.

Councillors' roles relating to audit and scrutiny are distinct. Scrutiny is concerned with the review of policy, its formulation and implementation. Audit operates to ensure that the governance and risk environment within the council is effective and that financial management is fit for purpose.

Each requires its own focus and resources. CIPFA recommends against combining audit and scrutiny in a single committee. Such action risks conflicts of interest, spreading councillors and others too thin, and losing clarity over both audit and scrutiny's important statutory functions. Both functions require distinct support and should be able to operate effectively and independently. But because the functions relate to similar areas, there will be matters of common interest where it makes sense to collaborate.

These matters include:

- **Action on mindset and culture.** Culture here is about the attitudes, behaviours and values of those involvement in the management and oversight of financial management. Scrutiny can use its role to test and challenge the presence of this culture across the organisation as part of its wider role.
- **Securing good governance.** Audit committees have a formal responsibility relating to the governance framework, including the preparation of the Annual Governance Statement. Scrutiny's inquiries can also serve to identify weakness and risk in this area, insight which can inform the development of the AGS. This may include the wider transparency of the council on financial matters;
- **Risk.** This is a critical part of the responsibility of member audit. Risk is an important factor in particular areas of audit committees' activity (for example, on treasury management as we mention below). Risk also plays an important role in assessing the "materiality" of misstatements in the financial statements (which we also explain further below). For scrutiny, risk can provide an important framework for prioritising matters on the work programme – it can be used as a tool to understand where pressures and weakness lies on which scrutiny can contribute productivity. It is easy to see how scrutiny and Audit's areas of interest might converge, given these roles;
- **Value for money.** All authorities have a responsibility to make arrangements to secure "best value", and continuous improvement, under the Local Government Act 1999 – ensuring that scrutiny and audit work closely together on this critical issue is likely to be important. Audit and scrutiny have distinct and complementary roles here – Audit oversees the adequacy of arrangements to

secure VfM while scrutiny can delve into performance and outcomes. External auditors have a responsibility for assuring that authorities have arrangements in place to ensure value for money;

■ **Wider policy issues, and the impact of council strategy on financial management.** This may include some of the following:

- How the council plans for the future, and how its medium term financial plan and its corporate plans align for the long term;
- The way the council works with its partners (and exposure to risk in respect of those matters). This may include the way that the council procures and outsources services, its approach to borrowing and the capital strategy, its approach to commercial activity, and other local factors which may influence financial affairs.

Most of these roles link closely to the “core functions” of Audit as set out in CIPFA guidance. More detail on the statutory functions and contexts of both the Audit and scrutiny functions can be found in the appendix.

Structural matters

- In some councils, the member audit and scrutiny functions are joined, often through an “Audit and Scrutiny Committee”. CfGS agrees with CIPFA’s recommendation that the functions of the Audit and scrutiny committees should not be combined in a single committee. Blurring the roles of these functions puts a council at significant risk of weak governance.
- CIPFA and CfGS also recommend against the practice of audit committees taking on other responsibilities (for example, for the Audit committee to be termed an “Audit and Governance” committee).

Similarly, many scrutiny committees have varied terms of reference. Some councils have multiple scrutiny committees, some only one. In councils with multiple scrutiny committees it is likely to make most sense that the scrutiny/audit committee liaison that this paper suggests occurs between the audit chair and the chair of any “parent” scrutiny committee, with that chair ensuring that an awareness of audit issues is built into the working patterns and plans of other scrutiny committees. Otherwise, individual conversations with multiple scrutiny chairs are likely to lead to confusion.

Ways to collaborate



Chairs and officers involved in both audit and scrutiny should meet and correspond regularly to talk about workplans and identify any potential duplication or gaps in coverage. This section sets out the kinds of tasks that these discussions should focus on – there is however no single correct approach.

Clarifying the core roles of both functions.

As a first step, this involves an awareness of statutory roles and responsibilities. More detail on formal roles and arrangements can be found in the appendix.

The role of audit is set out in CIPFA guidance, which lays out some core functions for committees. These include:

- Assurance on good governance and decision making
- Improving value for money
- Improving public reporting and accountability
- Embedding ethical values and countering fraud
- Effective risk management
- Effective internal controls
- Effective audit and assurance

Officer support is important here. The council's s151 officer and the head of audit and risk management, along with the council's monitoring officer, will have a range of responsibilities.

The role of scrutiny is more general. In legislation, scrutiny committees may look at anything which affects the area or the area's inhabitants. Scrutiny committees can select a range of methods to do this – taking reports in committee, or carrying out research in “task and finish” groups. Scrutiny makes an impact by making recommendations to the council's executive, or to other local bodies. Government guidance on scrutiny published in 2019 highlights the breadth of the function's role, and suggests that each council will need to consider a more narrow focus for scrutiny activity which offers the opportunity for maximum impact.

Given these overall functions and responsibilities there are a few areas of policy and practice where the work of audit committees and scrutiny committees could overlap. For example:

- Reviewing regular finance and performance reports;
- Reviewing council commercial activity, including oversight of procurement;
- General review of value for money arrangements .

External auditors have a core duty to publish:

- an opinion on the authority's accounts, and
- a conclusion on “value for money” arrangements.

(More on the role of the external auditor can be found in the appendix)

The publication of the external auditor's narrative opinion on value for money is likely to provide an important anchor for discussion on the relationship between the Audit and scrutiny committees and their respective roles.

These discussions will inform practical, day to day liaison about “what should go where” – which we go on to talk about in more detail below.

Regular conversations about committees' work programmes and responsibilities

Good working relationships are a precondition for any meaningful collaboration between audit and scrutiny committees.

Things for audit and scrutiny chairs to discuss

- Matters of emerging concern (arising from regular financial, performance or risk reporting);
- Longer term work (budget development, the planning of the medium-term financial strategy);
- Corporate governance matters (the production of external auditors' opinions, the production of the Annual Governance Statement)
- Agreement on how more in-depth work on these matters might be dealt with – whether and how audit committee and a scrutiny committee might work together in understanding and pursuing improvement on those issues – the next part sets out exactly what that agreement might look like.

A formal protocol is not needed for this to work – nor is the exchange of reports or the mutual reporting of minutes to other committees.

It is most likely that a brief monthly conversation between chairs will provide the best start – and will give a sense of what matters might need to be discussed in more detail.

More detailed discussion might, for example, be needed around the time of the publication of the external auditor's opinion and the preparation of the Annual Governance Statement.

Less frequently, the council's s151 officer, and Head of Internal Audit, might want to discuss the the scrutiny/Audit relationship and their mutual work with the authority's statutory scrutiny officer.

Agreeing who does what

Discussions will have to focus on who is doing what, and where the audit and scrutiny committees are learning things through their work which might be useful to each other. This will include:

- Liaison over the scoping of certain scrutiny reviews. Scrutiny scopes will need to be developed with financial matters in mind;
- Liaison over recommendations which may arise from scrutiny reviews;
- Whether members of the audit committee might sit on certain scrutiny task groups, or be involved in the budget scrutiny process. This may help to deepen the awareness of the scrutiny function of financial issues.
- The audit committee inviting comment from a scrutiny committee on the external auditor's findings on value for money;
- Scrutiny highlighting to the audit committee matters relating to financial management and oversight which might emerge as a result of scrutiny reviews;
- Discussion over the robustness of the council's budget processes, particularly where scrutiny has an active role in scrutinising the development of the budget.

- Any particular, emerging concerns – especially where external auditors might raise points of concern or where public scrutiny of the council accounts may do the same. Here, scrutiny’s insight into broader performance issues may be useful.

The **Annual Governance Statement** is a statutory requirement, the result of a review process usually led by the Monitoring officer and s151 officer. It should normally be laid before full Council. Audit has oversight over the development and agreement of the AGS. Scrutiny is likely to have insights into the health and capability of the governance framework which may inform this review process. These may include the effectiveness of the council’s own scrutiny arrangements, which the scrutiny function may choose to evaluate by way of its own Annual Report to Council

These discussions can feed into further conversations – on what training and development councillors might require, and on the content of the council’s **Annual Governance Statement**.

How collaboration might practically work



The previous section set out those areas where collaboration might be useful – this section goes into more detail, exploring those opportunities and setting out practically how such collaboration might work.

- Action on mindset and culture.
- Securing good governance.
- Risk.
- Value for money.
- Wider policy issues, and the impact of council strategy on financial management.

Action on mindset and culture

Mindset and culture are important element of financial planning – short and long term. Councillors have a particular role to model the behaviours they expect to see from others and to ensure that the attitudes and values that underpin those behaviours are focused on supporting robust financial processes.

Practical opportunities for joint working

The presence of **a culture of financial probity**, realistic approaches to risk (which we cover in more detail below), and a mindset of candour and openness on financial and budget matters all support the need for close audit/scrutiny working.

Scrutiny work programming might be designed to specifically take into account financial matters, and the scoping of individual reviews themselves might involve discussion of financial matters as a matter of course. This serves two purposes – raising the profile of financial matters and ensuring that they are treated as “business as usual” in scrutiny’s work, and integrating an awareness of financial management into scrutiny reviews.

Sometimes, scrutiny councillors might feel that technical issues around financial management need looking into. They might decide to pass those matters to the audit committee. Conversely, the audit committee may ask scrutiny to look more deeply into a given subject by reviewing its non-financial implications. All of this activity is designed to highlight the attitude that **collaboration on financial matters is important – that while statutory responsibility for many issues lies with audit, an awareness of financial challenges and an obligation to act on them is something which is collectively owned, requiring a whole-council response**.

Some of this will inevitably involve consideration of attitudes towards risk, and risk appetite, which we discuss in more detail below.

Action on mindset and culture: questions to ask and issues to explore

- What can the external auditor's opinion tell us about the culture and behaviours present in the authority around financial management generally?
- How are cultures and behaviours exhibited in practice – for example, in how officers respond to requests by the public to inspect the accounts?
- How do officers in service departments respond to financial pressures?
- How do officers (and members) shift their priorities in consequence of financial pressures?
- Where priorities and circumstances do shift in-year, what approach do officers and members take towards things like virement, underspends and overspends, and what are the processes and systems which define how such matters are overseen?
- How is an awareness of the cultural components of good financial management built into the review supporting the Annual Governance Statement, and what measures are in place to address these matters strategically? (This may link to recent work carried out by CfGS and Localis – the “Governance risk and resilience framework” (2021), as well as the CIPFA Financial Management Code.

Securing good governance

The work of the audit committee (and its connection to the work of external audit) should serve the public interest. In the context of local government, whilst it is often known what councils have spent (financial stewardship), it is often not clear what councils have got for it (value for money), nor whether it has contributed towards fairness in local communities (equity)¹.

Practical opportunities for joint working

The audit committee is required to work on the preparation and reporting of the Annual Governance Statement (AGS). Scrutiny is likely to be able to feed insights on the strengths and weaknesses in the governance framework to the audit committee.

In practice, this means that **scrutiny reviews may have picked up throughout the year on themes and issues relating to good governance, which should be formally fed into the AGS.** This may be informed by the use of the CfGS/Localis “Governance risk and resilience framework” (2021).

Securing the effectiveness of internal audit is another core function of the audit committee. The audit committee holds responsibility for oversight of this, but **scrutiny can explore and consider the wider organisational culture relating to how money is managed and spent as part of its work.**

Finally, the audit committee holds responsibility for oversight of the assurance framework. The framework is the mechanism by which the council’s leadership can satisfy themselves that policy decisions are being implemented, and that controls and safeguards exist and are operating effectively. Scrutiny itself forms a part of this framework. Assurance is also about councillors’ awareness of risk factors, and control issues, and how that awareness informs their responsibilities. **Scrutiny’s role will need to be fully and accurately understood by the audit committee to ensure that the potential for the scrutiny function to add a range of perspectives here is recognised.**

¹ Laurence Ferry, Audit and Inspection of Local Authorities in England: Five years after the Local Audit and Accountability Act 2014, HCLG Committee, 3 July 2019

Part of this assurance responsibility is the oversight of external auditors. This is something of which scrutiny will need to be aware, as backbench members may want to pick up on matters of concern raised in their reports, (subject to liaison with the audit committee itself²). This will be particularly pertinent if external auditors issue a qualified opinion, if they decide to issue a Report in the Public Interest, and/or where the council's s151 officer issues a s114 notice. For these circumstances, **there will need to be plans and provisions in place to determine how scrutiny and the audit committee will work together to best manage imminent threats to the authority's financial resilience.**

Securing good governance: questions to ask and issues to explore

- How can we have assurance that everyone in the governance system – members of Audit, of scrutiny, of other bodies (including Cabinet) and senior officers understand how individual and collective roles on good governance are understood and acted upon?
- How does the council (including Audit and scrutiny) incorporate an awareness of broader area working into its governance arrangements? Audit may be quite focused on the council as an institution – how aware is it (and other parts of the system) of the broader partnership and commercial dynamic within which the council operates?
- How does an awareness of financial challenges, and of the need for good financial conduct, permeate the organisation? How are the organisation's standards and values (and the standards and behaviours of members) tied to an understanding of the health of the control environment?
- Where a local person has sought to use their powers under the 2014 Act to inspect the accounts (and potentially to raise an objection) what has their experience been, what has that process revealed and are there any issues which the Audit and scrutiny committees will need to investigate in more detail?

² Recommendations 4 and 12 of the Redmond Review

Risk

There will need to be a consideration of those risks that may have a significant impact beyond the year and into the medium to long-term. The audit and scrutiny committees can seek to understand what systems are in place to tackle and mitigate those risks. In the section below on wider policy issues we look at the other side of this issue – how audit and scrutiny can work together as part of this framework to take direct action on these risks themselves.

Practical opportunities for joint working

Risk is central to effective scrutiny³. There are three components to audit committee risk management, which each have an intersection with scrutiny:

- Assurance on governance of risk. This is about oversight of the framework; for scrutiny, it will involve developing **familiarity with where leadership and responsibility lies on risk**;
- Reviewing the risk profile. **Understanding where and how strategic risks are emerging and being managed is an important audit committee task, which may benefit from scrutiny's assistance**;
- Monitoring the effectiveness of risk management arrangements. It is likely that **scrutiny can, through wider reviews of policy development, integrate an awareness of risk management into its work** – ensuring that audit committee can be supported with a grounding in what is likely to constitute the most efficacious approach to understanding evaluating risk management arrangements.

Risk: questions to ask and issues to explore

- To what extent is the authority's understanding of the financial risks it faces informed by an understanding of a clear sense of the needs of local people and demand for critical services?

³ "The governance risk and resilience framework" (CfGS/Localis, 2021), <https://www.cfgs.org.uk/governancerisk/> ; "Risk and resilience" (CfGS, 2016), <https://www.cfgs.org.uk/?publication=risk-and-resilience>

- How does specific risk management overseen by Audit feed into the management of strategic risks on council services?
- To what extent is an understanding of financial risk integrated into a broader understanding of risks to the resilience of the wider governance framework?
- How are risk matters regularly discussed by a wider range of councillors than just those sitting on the Audit committee, and how is the Annual Governance Statement used to bring these issues to the attention of the member corps more generally?

Value for money

In audit terms, ‘value for money’ (VfM) is defined as a public body’s “economy, efficiency and effectiveness in the use of its resources⁴. We have already noted the specific duties of external auditors in ensuring that an authority has steps in place to ensure value for money. This commentary can form the basis of productive audit/scrutiny committee collaboration.

Practical opportunities for joint working

Audit committees hold a particular responsibility to assure value for money, and Best Value. Councils continue to hold a legal obligation under the Local Government Act 1999 to make arrangements to effect continuous improvements to their services; the “best value” duty. The external auditor will have a responsibility for issuing an opinion on broader “value for money” objectives and whether they have been met. **As part of its substantive programme of reviews, scrutiny may be able to deliver evidence to support this activity.**

Scrutiny’s engagement in VfM matters is likely to come into play in the oversight of the budget⁵. This involves a focus on the value and outcomes of proposed budget decisions.

A key role of the external auditor is to provide a **narrative judgment on value for money at the authority**. Importantly, this is not about value for money substantively, but about assurance that the council has the systems in place to assure value for money (the external auditor does not look at the outcome of that assurance process). Scrutiny can play a role in ensuring that the council does deliver services that are value for money through its review work.

This is likely to be particularly important in councils which have adopted outcomes-based accountability (OBA), outcomes-based budgeting (OBB) and outcomes-based commissioning (OBC). These three linked sets of practices fix attention on outcome and impact, and demand that the needs of local people be well understood and used to inform priorities and budgets.

⁴ Local Audit and Accountability Act 2014, s.20

⁵ “The financial scrutiny practice guide” (CfGS, 2020)

In this area in particular, scrutiny and audit committees will need to carefully consider their mutual roles. **Audit committee's core functions are all involved in overseeing the systems which support the budget development process** (such as internal audit review and assessment against the Financial Management Code) – ensuring that the process and evidence used to support it are robust. **Scrutiny's role is arguably more political – engaging in the substance of decisions, weighing up priorities and impacts.** This provides **an opportunity to align the functions** by ensuring that formal oversight of financial systems is carried out in the context of an awareness of the political dynamics within which they sit.

Value for money: questions to ask and issues to explore

- How does the authority use the judgment of the external auditor on value for money to ensure that value for money is substantively delivered? What specific role(s) can scrutiny play to secure value for money?
- How does the judgment of the external auditor on value for money feed into wider discussion on service design?
- How does the council draw in intelligence and insight from the public, partners and other places to give it an accurate assessment of the value for money of its services?
- To what extent are performance management frameworks (and other management systems) designed around value for money?

Wider policy issues, and the impact of council strategy on financial management

This includes an awareness of risks, opportunities and impacts arising from policy decisions more generally – long term corporate plans (and how they interact with the medium-term financial strategy), partnership working, procurement, commercial activity and connected matters.

The emerging risks that councils are facing at the time of writing (June 2021) largely centre around commercial ventures. In time however this will change, and review of the council's strategic risk register will provide a sense of how these changes are happening, and where the greatest policy-related risks to financial management lie.

Practical opportunities for joint working

Governance and oversight of an increasingly complicated environment within which public services are designed and delivered places particular stresses on finances. Our ability to understand these pressures boil down to our ability to predict how they will impact on finances in the short and long term. The nature of risk – particularly in light of the pandemic – can shift exceptionally quickly, making long term planning a challenge. Together, audit and scrutiny committees can explore the practical implications of this uncertainty and support councils to understand how they can enhance their resilience to future shocks.

These may include:

- the creation of new vehicles for service delivery,
- the development of complex partnerships which have the potential to make accountability less clear, and
- councils embarking on commercial or other activity which – as has been seen in 2020/21 – can expose them to unexpected financial challenges.

These policy pressures, and others, link to what we said in the sections above on risk.

At a member level, the audit committee holds responsibility for oversight and assurance of the governance framework, within which scrutiny should expect to work. The audit committee will need to ensure that the governance framework, as it evolves and becomes more complex, with more stakeholders, is designed not only to permit involvement of the scrutiny function, but to ensure that it is meaningfully integrated in a way that adds value. There is the potential here (particularly relating to councils contracting with other bodies) for tension around commercial confidentiality, with governance obligations under the Companies Act, and with the general perception that governance for commercial activity needs to be streamlined. This makes audit committee oversight and careful design of an ongoing member role through scrutiny especially important.

Wider policy issues: questions to ask and issues to explore

- Where do responsibilities lie for overseeing the risk factors around long term planning?
- How might the need for confidentiality in respect of the way that the council engages with certain partners impact on a) the ability of councillors to understand risks relating to commercial operations and b) the financial exposure of the authority to risks around failure?
- What is the intersection between governance of the council and governance of (for example) commercial or outsourced matters?
- What are the primary objectives of commercial and partnership activity? Are these different from the objectives of the authority, and the objectives of the other partner or partners? How have things changed over time, and how can divergence be understood and taken account of?

Appendices: explaining the formal roles of audit, scrutiny and the public



Understanding the role of the audit committee

This section is designed to provide a straightforward explanation of audit committees for members of scrutiny committees. It is intended as an introduction and is not comprehensive. Councillors wishing to know more should read “Audit committees: practical guidance for local authorities and police” (CIPFA, 2018) and speak to their council’s section 151 officer. More detailed technical information on external audit more generally can be found in the 2020 Statutory Code of Audit Practice.

This information sets out the position as it applied in June 2021. At the time of writing plans for change were being considered by Government following the Redmond Review; when these changes have been brought into force we will make amendments to this publication, and readers should ensure that they refer to the most relevant and up-to-date information.

The core of the local government audit regime can be found in the Local Audit and Accountability Act, which replaced the previous arrangements by which audit was overseen by a national body, the Audit Commission. Local authorities are also required to comply with accounting practices set out in the Local Government Act 2003, and the Capital Finance and Accounting Regulations 2003, which underpin the statutory CIPFA Accounting Code of Practice.

A useful summary of the regime (including a diagram illustrating the relationships between key actors) can be found in sections 2 and 3 of the Redmond Review (whose work and findings are referenced elsewhere in this document).

Under the Act, a number of entities have responsibility for oversight of the regime. Public Sector Audit Appointments Ltd acts as an “appointing body” for local authority external auditors – but they do not have a role in securing the health of the audit system overall, a function that used to be performed by the AC. PSAA maintains arrangements to ensure the contractual compliance of external auditors; the Financial Reporting Council and ICAEW oversee audit quality. .

The role of external auditors

The auditor’s statutory responsibilities are listed at Schedule 1 of the statutory Code of Audit Practice.

External auditors have a core duty to publish:

- an opinion on the authority’s accounts, and
- a conclusion on “value for money” arrangements (something which intersects with an authority’s duty to make arrangements to deliver “Best Value”, under the Local Government Act 1999).

The **financial audit opinion** covers the financial statements, the Housing Revenue Account and the Collection Fund Account. The work carried out by external auditors is not an exhaustive review of the accounts of the authority, line by line. External auditors will instead consider groups of transactions with similar characteristics and evaluate the risk of “material misstatement” for each. A misstatement will be “material” if it could influence the wider decisions taken by users on the basis of the financial statements. An understanding of risk, and an understanding of how the authority uses financial statements and information, is therefore an important part of the external auditor’s role.

The **value for money opinion** is not an evaluation of the substantive value for money of the authority and its services. An external auditor’s job – further to the Statutory Code of Audit Practice is to determine instead whether arrangements are in place to ensure that value for money is delivered. In doing so the external auditor must comment on:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks;
- Improving economy, efficiency and effectiveness: how the body uses informed about its costs and performance to improve the way it manages and delivers its services.

Chapter 3 of the NAO's Code of Audit Practice provides a useful summary of the auditor's obligations.

The external auditor must also issue an annual report, bringing together all of their work in the previous year. This can provide a useful basis for scrutiny and audit committees to understand where issues and concerns need to be looked at further. The annual report must be published no later than 30 September. The Redmond Review recommends that the annual report should be presented to full Council.

On occasion an external auditor may use its power to publish a "report in the public interest" (RIPI), to highlight particular concerns which need urgent attention. The Redmond Review expressed some concern that RIPIs were not issued by external auditors more regularly given the risk and pressures under which local authorities are under – this is perhaps unsurprising as the concept of "public interest" is undefined in the legislation.

Powers also exist to issue statutory recommendations to an authority. The external auditor also has important duties – in particular to consider whistleblowing disclosures and to respond to objections raised by electors or other relevant persons.

Once the audit is complete the external auditor is required to produce a completion certificate.

Audit systems within the council: in general

Within the council, audit committees, internal audit and scrutiny are all key internal checks and balances. It is important to emphasise the difference between Audit committees and the Internal Audit functions, as well as the role of the external auditors.

More detail on audit committees

Audit committees are a key component of a council's governance framework, set up to support good governance and strong public financial management. Audit committees play an essential role in providing a high-level focus on probity, assurance and reporting, and can be delegated some additional governance responsibilities by the council. Audit is concerned with the robustness of the council's arrangements to implement its policies and to manage its resources but it has no wider role in engaging with policy.

An Audit committee will be composed principally of councillors (but not members of the administration). The Redmond Review, looking into the composition of committees and the skills of their members, found that size varies significantly, and that the skills of Audit members (and the support available to them, through training and so on) also varies.

As a matter of good practice, a way of bringing expertise into the work of Audit is through the appointment of independent lay members. An independent member may act as the Chair of the committee. Again, the extent to which authorities have made such appointments, and the value that such independent people provide, was found by Redmond to vary significantly (see section 5.1.6 et seq).

“The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place”.

CIPFA Position Statement: Audit Committees (CIPFA, 2018), para 2

Internal audit

The role of internal audit is to provide independent assurance by focusing on major areas of risk for the council, both strategic and financial, in order to evaluate the effectiveness of the council's risk management and governance processes. As well as providing assurance, an internal auditor's knowledge of the management of risk enables them to act as a consultant in providing support for improvement in the council's procedures.

The scope of internal audit includes all of the council's operations, resources, services and responsibilities. Where agreements allow, this includes all contractors and other bodies commissioned to deliver services on behalf of the council.

The Head of internal audit is required to provide an annual opinion on the governance, risk, management and internal audit controls within the council. This significantly contributes to the council's statutory Annual Governance Statement (AGS). Internal audit will also summarise their work in regular, usually quarterly, reports to the Audit committee.

If you want to find out more about the purpose, authority and responsibility of internal audit, it can be found in your council's 'Internal Audit Charter'. The Accounts and Audit Regulations 2015 provide further information.

Understanding the scrutiny role

This section is for audit members, and for officers involved in internal and external audit, to explain the scrutiny function. Many (but not all) councils will have a statutory scrutiny officer – designated further to the Local Government Act 2000. This officer will be in a position to provide assistance on scrutiny's duties, and ongoing work.

All councils operating executive arrangements (councils with a Leader and Cabinet, and councils with an directly elected Mayor) are required to have a scrutiny committee. Councils operating the committee system may have a scrutiny committee but do not have to. For councils without a scrutiny committee, some of the functions described below will happen elsewhere – in service committees, at full Council, at a General Purposes Committee or, potentially, at a Policy and Resources Committee.

There is significantly less guidance and direction on the role of scrutiny than there is on the role of audit. Furthermore, members of audit are likely to have had experience of scrutiny – a seat on a scrutiny is commonly the first appointment that new councillors will enjoy once elected. Hence, this section is rather shorter than the one previous.

The council's scrutiny function has a responsibility for investigating any issue affecting the area, or the area's inhabitants. This broad power is conferred by the Local Government Act 2000.

Scrutiny may require that council officers and Cabinet members attend meetings to answer questions;

they may require the provision of information by the council (scrutiny councillors have substantial rights over information held by the authority) and they may require a response by the executive on recommendations that they make.

Scrutiny committees may make certain requests of other organisations too. In particular, local NHS bodies and community safety partnership are subject to a form of oversight from the scrutiny function.

Scrutiny committees have substantial freedom to deliver their responsibilities, and this is reflected in a very wide range of functional models for scrutiny overall. Scrutiny's role will also differ substantially from authority to authority. This will reflect local democratic need.

It is common for scrutiny to carry out its work in two ways – in committee, and through “task and finish” groups, or other forms of working groups. The latter are informal groups of councillors, politically proportionate, commissioned by a parent committee, to investigate an issue and return with a report and recommendations.

The extent to which scrutiny is able to carry out its role will depend on the resources made available to it.

In guidance (both statutory, and informally) scrutiny is recommended to establish a clear role for itself, which complements the role of other member-level bodies. Audit is likely to need to be aware of this role as part of work supporting the Annual Governance Statement, and this may provide the first opportunity to promote closer working between the two functions.

Understanding the role of the public

The public are a crucial stakeholder in assuring the financial health of local authorities. The public, in particular, have specific powers in the 2014 Act to access accounts, and there are duties around the transparency of financial reporting.

The public may inspect the council's financial statements and the underlying accounting records. They have a 30-day period in which to do so, which must include the first ten days of June. Local authorities are also, under separate arrangements, required to publish details of all expenditure over £500.

External auditors, as we have already noted, have a duty to respond to objections to the accounts made by local people, which may relate to accounts accessed in this way.

“Opening up the books” is a crucial mechanism to provide for local accountability. It is an expectation that the way that public money is spent should be fully open to investigation by local people. The Audit committee, internal audit and external auditors all have a role in ensuring that this happens, with ultimate responsibility lying with the s151 officer.

In some areas, objectors have reported poor experiences of the process – in terms of how external auditors respond to objections, the quality of the response and the level of detail provided. The method that the public might use to complain about their experiences here is, in some cases, unclear⁶.

Scrutiny functions, meanwhile, may have their own arrangements in place for ensuring public feedback and input.

⁶ Research for Action, “Democracy denied: audit and accountability failure in local government” (2021), accessible at <https://researchforaction.uk/democracy-denied-audit-and-accountability-failure-in-local-government>



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