

# Review of the Governance and Audit Committee

Kent County Council

11 July 2022

## Table of contents

Introduction .....	3
Methodology .....	3
Summary of findings .....	3
Governance and Audit Committee terms of reference.....	4
Agenda and meeting management .....	4
Governance and Audit Committee members .....	5
Questioning and purpose.....	6
Keeping things apolitical .....	6
The audit committee's role in relation to risk .....	6
Working with internal audit .....	7
Making an impact.....	7
Annex 1: recommendations and action plan.....	9
Annex 2: interviewees .....	10

## Introduction

CIPFA has recently completed a review of the operation of the Governance and Audit Committee at Kent County Council. The Committee has made progress in improving its effectiveness in recent years and is now looking for further ideas to take its development forward. The aims of the review were to:

- Help the committee members and those working with the committee to establish a shared understanding of the role of the committee and where it can have an impact.
- Review the operation of the committee, including how it has fulfilled its terms of reference and demonstrated the impact of its work.
- Identify any areas for improvement and support the Council to develop an action plan.
- Identify areas where further training or support to committee members is recommended (separate piece of work).
- Share CIPFA's guidance and experience of working with other audit committees in local authorities.

## Methodology

We undertook the following work:

1. Meeting eight of the ten members and the independent member of the Committee to obtain their views on what works well and what needs to be improved.
2. Meeting the key officers who work with the Committee to understand their role in relation to it and to gain their perspective on what works and what needs improving.
3. Reviewing the terms of reference of the Committee and meetings of the Governance and Audit Committee (July 2020 – January 2022) using published Committee papers. Observing the meetings on 30 November 2021 and 25 January 2022 and attending part of the meeting on 27 April 2022.
4. Using CIPFA's guidance<sup>1</sup> on audit committees and its experience of working with other audit committees to review how effectively the Governance and Audit Committee has been operating.

## Summary of findings

The Governance and Audit Committee has demonstrated and continues to demonstrate some good practices to build on. In particular, questioning is generally focussed on the key matters. However, the Committee's terms of reference is missing some of the key areas highlighted in the CIPFA guidance and includes items that should be dealt with by other committees. Revising the Committee's terms of reference would help to clarify its purpose, enabling it to focus on material matters and avoid scope creep. Improving the focus of the Committee will also support it in making an impact across the Council.

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<sup>1</sup> CIPFA produced its updated Audit Committee Position Statement and guidance for Audit Committees during the period of this review and it is these documents that have been used. The guidance had not been published at the time of the review and we worked from a final draft.

Further details are given below and we look forward to working with the Committee and officers to develop an action plan to take the Governance and Audit Committee forward.

## Governance and Audit Committee terms of reference

We compared Kent's Governance and Audit Committee terms of reference to the sample terms of reference in the 2022 CIPFA audit committee guidance and noted the following:

- There is no over-arching statement of purpose, which would set out the philosophy and role of the Governance and Audit Committee and why it is important to the Council.
- There is no explicit reference to a number of areas that we would expect an audit committee to cover (ethical framework, internal controls, value for money and Annual Governance Statement). Most of these areas were, however, discussed by the Committee. In addition, references to other areas need expanding to cover the breadth of the Committee's role.
- It includes one item that is inappropriate for an audit committee and which should be addressed by a scrutiny committee or a policy-making committee (receiving ongoing assurance and information to enable the effective scrutiny and oversight of the Executive decision-making around shareholder strategy regarding companies in which the Council has an interest). We also noted other matters being discussed that were not in the terms of reference and could or should be dealt with elsewhere (annual review of insurance, regional growth fund and annual customer feedback report).
- The Committee needs to take care in relation to its activities around treasury management, focussing on reviewing activities. It must not get involved in looking at strategy and making policy. CIPFA provides guidance on treasury management governance that sets the different roles out clearly<sup>2</sup>.
- The wording in the terms of reference could be improved to make the Committee's role clearer and to avoid scope creep. For example, there are references to 'ensuring' that matters are addressed/outcomes are achieved rather than 'monitoring' matters, which may have encouraged the Committee to get into inappropriate levels of detail.
- There is no guidance on how the Committee fits in with other committees nor how it is held to account.

We have provided the details of our review against the terms of reference separately.

### (Recommendation 1)

## Agenda and meeting management

In common with many audit committees, the agenda for Kent's Governance and Audit Committee contains many items and it is difficult to do each item justice while keeping the meeting to a reasonable length. The agenda could be reduced by:

- Removing the items referred to above that should not be part of an audit committee's remit
- Receiving some quarterly reports half-yearly and more frequently only by exception

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<sup>2</sup> Treasury Management in the Public Services, Code of Practice and Cross-Sectorial Guidance Notes, CIPFA, 2021

- Changing the focus of reports to concentrate on problems, changes and the future rather than repeating information routinely
- Reviewing policies outside the committee meeting cycle and only bringing those where there is disagreement to the Committee
- Receiving items for assurance, national reports and similar matters outside the agenda cycle and only bringing those where there are matters to discuss to the Committee
- Dealing with trivial questions outside the meeting and focussing only on material matters in the meeting.

### **(Recommendation 2)**

## **Governance and Audit Committee members**

Committee meetings were well attended, with substitutes used when a member cannot be present. The use of substitutes is not generally recommended and any substitutes should be well-briefed and trained (as is required by the committee's terms of reference) in the same way as a regular audit committee member.

Audit committees can be technically complex and a few members mentioned that they would have liked a better induction, especially for those who are new to local government. Some of this may have been a consequence of virtual working during the pandemic. If there is insufficient time for formal training before the first Audit Committee meeting of the year, it is important that members are properly briefed to enable them to perform their role effectively, especially if this first meeting includes examining the accounts. Members generally said that they would prefer training to be 'drip fed' at the appropriate point in the committee cycle. Training needs to be discursive and not just be a means to disseminate knowledge and information. Training on the philosophy of the committee as well as its activities would be appreciated and would help keep the focus of the Committee on the critical items.

### **(Recommendation 3)**

We were pleased to note that the Governance and Audit Committee includes an independent member. Independent audit committee members are recommended in the revised CIPFA guidance and can be a valuable resource to the committee:

- They can fill skills gaps in the membership
- They send a powerful message about the independence of the committee
- They provide continuity and corporate memory for a committee where the membership can change frequently.

To make the most of the independent member, we suggest that the term be extended to four years from the current two, ensuring that it crosses over the electoral cycle.

The Government announced (1 June 2022) that every public sector audit committee must have an independent member and legislation is to be introduced to this effect. CIPFA recommends appointing at least two independent members.

### **(Recommendation 4)**

In the past, directors have not been routinely invited to attend the Committee to discuss low assurance audit reports and/or explain delays in implementing recommendations and/or talk through risks. We were pleased, however, to observe directors attending to explain

recommendation implementation delays at the meeting we attended and to note the robust questioning. We understand that this is going to be the practice in the future, something that we commend.

## Questioning and purpose

The purpose of an audit committee is to obtain assurance that the organisation is operating effectively (in other words, looking at the engine of the organisation). Many of the questions asked by the Governance and Audit Committee were focussed on assurance gathering but, at times, they became political or seemed to be asked to make a point about a person or activity or asked out of interest. At other times members came close to taking on a more operational role rather than keeping things strategic (noses in; fingers out is a helpful mantra). If we use the metaphor of a car, an audit committee should be looking at the engine, kicking the tyres and checking for rust. If it finds itself sitting in the car, looking at the map or out of the windows, it is focussing on non-audit committee matters and/or officer roles. Greater clarity about the Committee's role in its terms of reference would help it to maintain its focus.

### **(Recommendation 1)**

## Keeping things apolitical

Because the focus of an audit committee is on the organisation of the council, politics should not feature. Audit committees should consider how policies are implemented, not the policy or the decision itself. Interviewees had mixed views about the extent to which the Kent Governance and Audit Committee became political and there was some confusion about what being apolitical entailed. We observed some inappropriately political behaviour in meetings. Developing the Committee's terms of reference to clarify its role and set out its overarching purpose and philosophy, together with early training for new Committee members, would help to set the right culture and reinforce the Nolan principles.

### **(Recommendations 1 and 3)**

## The audit committee's role in relation to risk

CIPFA has expanded its guidance on the audit committee's role in relation to risk in the most recent edition. Previously it focussed on the role of the audit committee in relation to the risk framework and arrangements but it now also considers the risk committee role that audit committees often take on where there is no other body to do so. The Governance and Audit Committee at Kent has taken on both these roles in its work. It is important that the Committee:

- Is clear when it is acting as a risk committee and when it is taking on the overview audit committee role.
- Checks for and avoids overlaps with the risk roles of other committees, especially when challenging individual risk registers. For example, service risk registers might be better dealt with in a scrutiny committee, leaving the Governance and Audit Committee to focus on the more strategic risk registers.
- Distinguishes between these roles in the terms of reference and sets out clearly what it does and does not do in relation to risk and where it draws assurance from the work of another committee or body.

- Is purposeful in its risk work, focusing on the material outcome of risk management rather than the nuts and bolts of the process. At times, the focus seemed to be on political risks rather than on ones that are material to the organisation, which is not the role of an audit committee.
- Invites risk owners to discuss their risks rather than relying on the risk portfolio holder and officers who are routinely in Governance and Audit Committee meetings to answer questions.

**(Recommendations 1 and 5)**

## Working with internal audit

External audit attends almost every Governance and Audit Committee meeting. We have no observations to make in relation to external audit other than a suggestion about meeting the auditors which is included below.

Internal audit currently includes summaries of all its reports on the Committee agenda, including those with no or minimal issues. This increases the size of the Committee's agenda with items that both do and do not require the Committee's attention, making it harder to identify the material items. While it is appropriate for the Governance and Audit Committee to be aware of the outcome of all internal audit reports, only those with low assurance and/or a number of recommendations should be taken to the meeting. The remainder could be placed on the member's section of KNet for members to read if they wish.

**(Recommendations 2 and 6)**

It is recommended good practice for the audit committee to meet both internal and external audit separately, privately and formally at least once a year. This sends the important message that the audit committee takes both of these services seriously and listens to what they have to say. These meetings could take the form of a short session before the open part of the meeting starts, with only internal or external audit and the committee members present so that they can formally raise any matters of concern.

**(Recommendation 7)**

The Committee's terms of reference lacks detail regarding its relationship with its auditors, internal and external, and should be expanded to cover the areas included in the CIPFA recommended terms of reference.

**(Recommendation 1)**

## Making an impact

The audit committee is there to make a difference and to help the engine of the council function better. While the Committee has engaged with these core roles, it has also been used for political point scoring and there is a general sense that it isn't heard by senior members and doesn't make a difference. Ensuring that the committee focusses on its key purpose, looks for improvements and towards the future will help it make an impact. Developing the Committee's terms of reference to make this emphasis clear and to highlight its monitoring and assurance role will be a useful starting point. In addition, committee members should both raise Governance and Audit Committee matters elsewhere and bring information from other committees to the Governance and Audit Committee as the occasion

arises. We also suggest that the role of the audit committee should be set out in induction training for new councillors to improve the general awareness of the committee.<sup>3</sup>

**(Recommendation 1)**

The Committee does not produce an annual report from the chair to the Council, something that CIPFA has recommended in its guidance since 2013 and something that would help to raise its profile within the Council. The focus of these reports should be both on the Committee's activities in delivering its terms of reference and on the difference that it has made in doing so<sup>4</sup>. We suggest that the Committee chair could also produce a short briefing note at the end of each meeting, summarising the key points raised, to be shared with all councillors, thus demonstrating the Committee's impact. These summaries could also form the basis of the annual report.

**(Recommendation 8)**

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<sup>3</sup> Some useful FAQs are included here <https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees>

<sup>4</sup> CIPFA's Position Statement (2022) says that the committee should report annually on how it 'has complied with the position statement, discharged its responsibilities, and include an assessment of its performance ..... The committee should evaluate its impact and identify areas for improvement'



## Annex 1: recommendations and action plan

	Recommendation	Response	Reponsible person and date
1	Update the Governance and Audit Committee's terms of reference to set out its purpose, role and position within the governance arrangements at Kent County Council and its activities in relation to risk management.		
2	Once the Committee's terms of reference has been revised, look for ways to reduce the length of the agenda, including identifying items that could be dealt with outside the committee cycle and reporting only those matters where audit committee input is needed.		
3	Develop a training programme for committee members, both to support those who are new to the Committee and as a refresher for more experienced members. It may be best to take a 'just in time' approach to training and training should support members to discuss and agree how the Committee is going to address the subject. Training should be both to share knowledge and to develop an appropriate culture for the Committee.		
4	Consider revising the independent member's terms of appointment to extend the term of office and ensure that it crosses the electoral cycle.		
5	Maintain a strategic approach to risk, focussing on the material matters. Taking deep dives into individual corporate risks may be helpful. Invite risk owners to present their risks, to enable a more informed discussion and to increase risk accountability.		
6	Focus internal audit reporting on material matters, where the Governance and Audit Committee can make a difference.		
7	Meet internal and external audit separately, formally and in private (Part 2 meeting) at least once a year.		
8	Produce an annual report to the Council from the Governance and Audit Committee Chair. Also consider producing a short briefing note from the Chair after each meeting, summarising the key points to be shared with all members.		

## Annex 2: interviewees

Name	Role
Cllr Rosalind Binks	Chair of Governance and Audit Committee
Cllr Alistair Brady	Governance and Audit Committee member
Cllr Nick Chard	Governance and Audit Committee member
Joel Cook	Democratic Service Manager
Zena Cooke	S151 Officer
Emma Feakins	Chief Accountant
Cath Head	Head of Finance Operations
Cllr Mark Hood	Governance and Audit Committee member
Dr David Horne	Independent member, Governance and Audit Committee
Jonathan Idle	Head of Internal Audit and Counter Fraud
Cllr Dylan Jeffrey	Governance and Audit Committee member
Cllr Harry Rayner	Governance and Audit Committee member
Mark Scrivener	Corporate Risk Manager
Andy Tait	Committee Secretary
Cllr Robert Thomas	Governance and Audit Committee member
Ben Watts	Monitoring Officer and Returning Officer
Cllr Simon Webb	Governance and Audit Committee member



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