



Draft Internal Audit Report

North Herts Council – FAR Committee Review

December 2024

Overall Assurance: N/A - Advisory

Recommendations: 3 Medium and 1 Low Priority

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 Internal Audit provides North Herts Council (the Council) with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan. This consultancy assignment formed part of the approved 2024/25 Annual Audit Plan for the Council.
- 1.2 CIPFA's 2022 Audit Committee guidance states that audit committees are a key component of an authority'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's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective. The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.
- 1.3 The Council's Finance, Audit and Risk Committee (FAR Committee) is responsible for overseeing the governance of the Council. The scope of the Committee is wide and varied, but its focus is on making sure the Council has the processes in place to enable it to be run effectively. The FAR Committee carries out the statutory role of approving the Council's accounts and Annual Governance Statement. It also oversees and monitors the work programme that is being carried out by the Shared Internal Audit Service (SIAS), the Shared Anti-Fraud Service (SAFS) and the Council's external auditors (EY handing over to KPMG), all with a focus of ensuring things are done in the right way. It also supports the Cabinet in reviewing quarterly financial monitoring reports and ensuring a robust framework and process is in place to manage risk.
- 1.4 The FAR Committee meets six times a year, is attended by senior Council officers, representatives from SIAS, EY / KPMG and SAFS, is chaired by an elected Councillor, with cross-party membership of elected Councillors and one independent or co-opted member.

Purpose and Methodology

- 1.5 The purpose of this audit was to conduct an independent consultancy exercise on the effectiveness of the Council's FAR Committee, reviewing the operation and management of its meetings and benchmarking its performance against the 2022 CIPFA Audit Committee guidance, most notably the frameworks and matrices on self-assessment with good practice, evaluating the impact and effectiveness of the audit committee and audit committee knowledge and skills.
- 1.6 The following areas were covered as part of this review:
 - a) We reviewed the FAR Committee terms of reference to assess whether it has been regularly updated, and sufficiently covers the roles and responsibilities of the FAR Committee.
 - b) We confirmed whether appropriate/relevant training had been provided to members of the FAR Committee to develop their skills and knowledge.
 - c) We confirmed whether actions and decisions made in FAR Committee meetings were accurately recorded in sufficient detail within the FAR Committee meeting minutes.

- d) We confirmed whether FAR Committee papers were sent/published at least five working days prior to FAR Committee meetings. We also confirmed whether FAR Committee papers had been appropriately reviewed prior to publication.
- e) We reviewed evidence of training provided and assessed whether the induction/briefing/trainings were effective and sufficient.
- f) We compared the FAR Committee's processes and meeting minutes against recognised best practice (particularly the 2022 CIPFA position statement and relevant parts of the self-assessment checklist) to identify areas where the FAR Committee's effectiveness could be improved. The 2022 CIPFA self-assessment checklist covers the following key areas:
- Audit Committee purpose and governance.
 - Functions of the committee.
 - Membership and support.
 - Effectiveness of the committee.
- g) We interviewed two members (the Chair and Independent Member) and the Committee, Member and Scrutiny Officer for the FAR Committee to obtain their views on:
- the overall awareness of members of the FAR Committee's roles and responsibilities.
 - the effectiveness of the induction and training delivered to them and other members.
 - the amount of time provided to members to review FAR Committee papers.
 - the effectiveness of the FAR Committee's practices.

Summary of Findings

- 1.7 We concluded that the FAR Committee has effectively ensured that its members are aware of their roles and responsibilities and consistently receives committee papers in a timely manner prior to meetings. Training sessions are regularly provided to the FAR Committee members by the Service Director (Resources), SAFS and SIAS.
- 1.8 Through discussions with more experienced members of the FAR committee, we received feedback on areas of improvement regarding the Committee's effectiveness and suggestions for improvements to the training provided to members. We also identified that the FAR Committee does not complete an annual self-assessment exercise that would evaluate its effectiveness against recognised best practices and possibly identify opportunities to enhance the Council's governance framework. We provide below a summary of our observations and findings from each of the areas reviewed within this consultancy assignment.
- 1.9 We reviewed the Terms of Reference (ToR) for the FAR Committee, which is part of the Council's constitution. The constitution was subject to timely update, and last updated on 6 August 2024. The ToR sufficiently covers the roles and responsibilities of the FAR Committee, and the Service Director (Resources) confirmed that updates to the constitution are at least annually, but there have not been any recent updates to the TOR for FAR Committee specifically.
- 1.10 Based on our interviews with two members of the FAR Committee (the Chair and Independent Member) and the Committee, Member and Scrutiny Officer for the FAR Committee, to seek their views on the overall awareness between members regarding the Committee's roles and responsibilities. They were all confident that the roles and responsibilities of the FAR Committee were made clear and that they believed the membership of the FAR Committee has sufficient experience and skillsets to provide adequate review and scrutiny of all Council reports and papers presented to it.

- 1.11 During these discussions, we confirmed that members felt that the FAR Committee would benefit from additional training on helping members understand the extent of their rights to hold Council Officers to account, seek explanation and challenge / scrutinise matters they are unsure/unsatisfied with in a constructive, non-political, and supportive environment.
- 1.12 Linked to this, for example, is helping the FAR Committee in understanding their role in relation to internal audit as a key assurance provider within the governance framework. CIPFA has introduced the Code of Practice for the Governance of Internal Audit in UK Local Government (the Code), which provides the route to satisfying the essential conditions in the Global Internal Audit Standards (UK public sector), tailored for UK local government. This includes (in summary):
- Support for internal audit - *Internal audit's activities require access to and support from senior management, the audit committee and those charged with governance. Support allows internal audit to apply their mandate and charter in practice and meet expectations.*
 - Positioning internal audit independently - *On behalf of those charged with governance and the audit committee, senior management establishes and protects the internal audit function's independence and qualifications.*
 - Oversight of internal audit - *To ensure the effectiveness of internal audit, it should be overseen by the audit committee on behalf of those charged with governance.*
- 1.13 Similarly, the CIPFA Audit Committee Guidance 2022 states, '*The audit committee's objective is to support auditor independence and effective arrangements and relationship with the auditors.*' Therefore, we recommend providing appropriate training to raise members' awareness is imperative as it will ensure they can fully and effectively utilise their rights and powers to scrutinise, oversee, monitor, and challenge Council Officers and activities.
- 1.14 We reviewed the meeting minutes for the FAR Committee for the period April 2023 to April 2024 and confirmed that the papers and agendas had been published at least five working days prior to the committee meetings and that all the meetings were quorate. We confirmed that actions and decisions made in Committee meetings were recorded in the meeting minutes.
- 1.15 During our discussions with the three members of the FAR Committee, we heard their impressions on the amount of time provided to members to review papers. Members agreed that the papers were released in time ahead of the meeting, that ensured they had sufficient time to review them.
- 1.16 For the 2023/24 financial year, we confirmed that FAR Committee members were provided with the following training to develop their skills and knowledge:
- FAR Governance
 - Finance and Risk
 - Anti-Fraud
 - Budget Setting
- 1.17 In addition, a well-attended training session was delivered by the Head of Assurance on 25 January 2023 to provide an overview of SIAS and the role of internal audit. On 31 January 2024, SIAS provided training on Internal Audit Planning / Delivery, notably focusing on impediments to delivery of the internal audit plan.

To foster a greater understanding of their role, we were informed by the Head of Assurance that a training session will be provided in January 2025 on the GIAS Domain III and the results of the current CIPFA and IASAB consultations on the Code of Practice for the Governance of Internal Audit in UK Local Government and the Global Internal Audit Standards (UK public sector). This training will be invaluable in helping members understand their roles and responsibilities in relation to internal audit.

- 1.18 We have also confirmed with the Service Director (Resources) that for the current year 2024/25, an induction session was delivered in advance of the June 2024 meeting. This was particularly important given the presence of new members following the local elections, ensuring they are well-prepared and informed about their roles and responsibilities.
- 1.19 We reviewed meeting minutes for attendance to confirm who was at these sessions and found that a total of six members were absent. One member missed all three meetings, while another arrived late on one occasion. Considering that training generally takes place half an hour prior to the Committee meeting, absences and late arrivals can affect the attendance and effectiveness of the training. An advisory action has been raised in respect of this.
- 1.20 During our review, all interviewees were happy with the level of training provided in the 2023-24 financial year. For the induction and general training session given before the FAR Committee meeting in June 2024, all members stated that it gave them good awareness and understanding of their duties and responsibilities.
- 1.21 During the course of this review and through our interviews, we identified that the FAR Committee does not perform an annual self-assessment exercise that requires all members to assess the FAR Committee's effectiveness against the good practice statements outlined by the CIPFA Position Statement 2022. The FAR Committee presented the Finance, Audit and Risk Committee Annual Report 2023-24 to the Full Council, which provided Council with a performance overview and assurance as to the effectiveness of the FAR Committee for 2023/24. By conducting the self-assessment exercise, this will facilitate a more thorough evaluation of the Committee's performance, ensuring alignment with best practices and enhancing transparency and accountability to the Full Council. An advisory action has been raised in respect of this.
- 1.22 Finally, we compared the practices of the Council, determined throughout the course of this audit, against relevant elements of the Audit Committee checklist and the CIPFA position Statement 2022 and identified the following areas for consideration and / or improvement:

Findings	Good Practice
<p>The Council does not have a dedicated audit committee that is not combined with other functions (e.g. finance, standards, ethics).</p> <p>This does not necessarily mean that these arrangements are not working, but that it may be deflecting the business and resource of the function away from its core role and functions.</p>	<p>The CIPFA Audit Committee Guidance 2022 recognises the best practice is to ensure a dedicated audit committee. CIPFA recommends that the audit committee should have no other functions, and explicitly no decision-making role.</p> <p>The Guidance goes on to say that Councils will have scrutiny committees that will undertake budget scrutiny and monitor financial performance. The responsibility of the audit committee is not to duplicate these functions.</p>

<p>The FAR members did not meet privately with the external auditors and Head of Internal Audit in the last year at least once a year.</p>	<p>The CIPFA Audit Committee Guidance 2022 advises that the audit committee should enhance the quality and effectiveness of the external audit process. It recommends that the audit committee have the opportunity to meet privately and separately with the external auditor, without the presence of officers with whom the auditor maintains a working relationship.</p> <p>It also indicates that the head of internal audit, also known as the chief audit executive, must have unfettered access to the chair of the audit committee.</p> <p>The Code of Practice for the Governance of Internal Audit in UK Local Government states that the chief audit executive must have the right of access to the chair of the audit committee at any time.</p>
<p>Through interviews with more experienced members of the Committee, there were concerns that whether some of the risk management papers were truly insightful given the sheer volume of papers. It was suggested that there should be a better emphasis and description of the key issues on the coversheet, to capture the key messages and risks.</p>	<p>The CIPFA Audit Committee Guidance 2022 has a section on Risk Management and 'Acting as a Risk Committee'. This may provide a useful steer.</p>

Summary of Recommendations

1.23 We have made three medium and one low priority recommendations on the following areas:

- Self-Assessment Reviews
- Practices of the Council/FAR Committee
- Training attendance
- Refresher training

1.24 Please see Management Action Plan at Appendix A for detail. We have provided risk ratings as per our normal reporting practices for prioritisation purposes.

Overall Audit Opinion

1.25 No assurance opinion has been provided in this report as this is included in the 2024/25 Internal Audit Plan as an advisory assignment. The contents of this report will however inform the Chief Audit Executive's overall assurance opinion on governance, risk, and control for the Council as part of the SIAS Annual Assurance Statement and Internal Audit Annual Report presented to the June FAR Committee each year.

Annual Governance Statement

1.26 While no overall assurance opinion has been provided, the outcomes of this consultancy / advisory assignment will nonetheless inform and support the compilation of the Annual Governance Statement.

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p>Annual self-assessment exercises</p> <p>We identified through discussions throughout the course of this review, that the FAR Committee does not perform an annual self-assessment exercise, which would allow members the opportunity to provide feedback on the operation, functions and management of the FAR Committee in order to improve its effectiveness against recognised best practice. The self-assessment should be done in alignment with the Annual Report process to the Full Council.</p> <p>Associated risk If members do not perform this exercise, there is a risk that the Committee is unable to review its effectiveness against recognised best practice or identify ways it can add value to the Council's governance, risk and control framework.</p>	Medium	<p>The Council should conduct an annual self-assessment exercise to review its effectiveness against recognised best practice, with an increased focus on the mentioned areas of improvement and implement the relevant changes if deemed necessary.</p> <p>This in turn should feed into the annual report and review of effectiveness to Council.</p>	<p>Management Response:</p> <p>To discuss the approach with the Finance, Audit and Risk Committee, as the effectiveness of the self-assessment will be dependent on input from Members of the Committee.</p> <p>Responsible Officer: Service Director: Resources</p>	<p>January 2025 for discussion at FAR Committee. Other actions to follow based on decision.</p>

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
2.	<p>Practices of the Council / FAR Committee</p> <p>We compared the practices of the Council, determined throughout the course of this audit, against relevant elements of the Audit Committee checklist and the CIPFA Audit Committee Guidance / Position Statement 2022 and identified the following areas for consideration and /or improvement:</p> <ul style="list-style-type: none"> • The Council does not have a dedicated audit committee that is not combined with other functions (e.g. finance, standards, ethics). • The FAR members did not meet privately with the external auditors and Head of Internal Audit in the last year at least once a year. • Through interviews with more experienced members of the Committee, there were concerns that whether some of the risk management papers were truly insightful given the sheer volume of papers. It was suggested that 	Medium	<p>The Council should review the three areas listed in the finding and implement the relevant best practices if deemed necessary or appropriate:</p> <ol style="list-style-type: none"> 1) The Council should consider establishing a dedicated audit committee that operates independently from other functions. This may involve changes to the FAR Committee terms of reference and have an impact on other committees if any significant change is proposed. 2) The FAR members should have the opportunity to meet privately with the external auditors and the Head of Internal Audit at least once a year. This will help them gain a clearer understanding of the audit processes and any issues that may need addressing. 	<p>Management Response: This has also been raised as part of the Council's Peer Review. It will be considered as part of ongoing Governance Reviews.</p> <p>Responsible Officer: Service Director: Resources and Service Director: Legal and Community</p> <p>Management Response: This will be highlighted when the report is discussed by the FAR Committee.</p> <p>Responsible Officer: Service Director:</p>	<p>March 2026</p> <p>January 2025</p>





No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>there should be a better emphasis and description of the key issues on the coversheet, to capture the key messages and risks.</p> <p>Associated risk Consideration of adherence to best practice is essential, or there will be a risk that the FAR Committee’s effectiveness, ongoing improvement, and the application of its roles and responsibilities may be compromised.</p> <ul style="list-style-type: none"> • If the FAR members do not meet privately with the external auditors and Head of Internal Audit at least once a year, there is a risk that important issues may not be discussed openly, potentially compromising the effectiveness of the audit and assurance process. • If the key issues are not clearly emphasised in the risk management papers, there is a risk that critical risks and messages may be overlooked, leading to inadequate risk management and decision-making. 		<p>3) The summary of risk reports should emphasise and describe the key issues to effectively convey the main messages and risks.</p>	<p>Resources</p> <p>Management Response: To trial as part of the mid-year update on risk (presented to FAR in January 2025) and seek feedback. Further refinements to follow with each report.</p> <p>Responsible Officer: Service Director: Resources</p>	<p>January 2025, onwards</p>

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
3.	<p>Training attendance</p> <p>We reviewed the minutes of the last three FAR Committee meetings and found that a total of six members were absent, with one member missing all three meetings and a late arrival on one occasion. This resulted in a number of members missing some additional training sessions that was provided by the Council to aid their development as a sitting member.</p> <p>It is recognised that members may face challenges in attending training relating to family, employment and / or other outside commitments.</p> <p>Associated risk Absences and late arrivals may impact the attendance rate of the training, which could, in turn, affect the ability of Members to perform their role and the overall effectiveness of the FAR Committee.</p>	Medium	The Council should remind members of the importance of attending all FAR Committee meetings and all training sessions that are provided for their development.	<p>Management Response: This will be highlighted when the report is discussed by the FAR Committee.</p> <p>Responsible Officer: Service Director: Resources</p>	January 2025

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
4.	<p>Refresher training</p> <p>During the discussion with FAR Committee members, it was stated that there was limited review and challenge of questions being asked at the first few FAR Committee meetings, but that the level of challenge has increased over time.</p> <p>Members reported that the FAR Committee could benefit from additional training to remind and help members understand the extent of their rights to hold Council Officers to account, support, seek explanation and challenge / scrutinise matters they are unsure/unsatisfied with in a constructive, non-political, and supportive environment.</p> <p>We were informed by the Head of Assurance that a training session will be provided in January 2025 on the GIAS Domain III and the results of the current CIPFA Code of Practice for Internal Audit in Local Government and IASAB GIAS (Public Sector) consultations. This training will be invaluable in helping members understand their</p>	Low	Appropriate training should be provided to address how members can fully and appropriately utilise their role and function to scrutinise, check and challenge Council Officers and activities.	<p>Management Response: To continue to seek Member feedback on the training that they would find helpful, as well as training directed by Officers to target key issues and developments.</p> <p>Responsible Officer: Service Director: Resources</p>	January 2025, onwards

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>roles and responsibilities in relation to internal audit and how to effectively exercise their role and function.</p> <p>Associated risk If FAR Committee members are unaware of the authority and responsibility embedded in their roles, there is a risk that the efficiency and effectiveness of the FAR Committee can be impacted.</p>				

Assurance Level	Definition
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priority Level		Definition
Corporate	Critical	 Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High	 Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium	 Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low	 Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.