



Please ask for Amanda Clayton
Direct Line: 01246 34 5273
Email committee.services@chesterfield.gov.uk

The Chair and Members of Standards
and Audit Committee

17 November 2020

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 25 NOVEMBER 2020 at 2.00 pm via Microsoft Teams, the agenda for which is set out below.

This meeting will be held virtually via Microsoft Teams software, for which Members of the Committee and others in attendance will receive an invitation. Members of the public will be able to access the public parts of the meeting online by following the link from the Council's website [here](#)

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda
2. Apologies for Absence
3. Minutes (Pages 3 - 10)
4. Outstanding Internal Audit Recommendations (Pages 11 - 26)
5. Summary of Internal Audit Reports Issued and Progress update on the 2020/21 Internal Audit Plan (Pages 27 - 36)

6. CIPFA's Audit Committees Practical Guidance including a self assessment (Pages 37 - 128)

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Randy', written in a cursive style.

Local Government and Regulatory Law Manager and Monitoring Officer

STANDARDS AND AUDIT COMMITTEE**Wednesday, 23rd September, 2020**

Present:-

Councillor Rayner (Chair)

Councillors Caulfield
Brady
KellmanCouncillors T Murphy
Snowdon

*Matters dealt with under the Delegation Scheme

**67 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS
RELATING TO ITEMS ON THE AGENDA**

No declarations of interest were received.

68 APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor A Brittain.

69 MINUTES**RESOLVED –**

That the Minutes of the meeting of the Standards and Audit Committee held on 22 July, 2020 be approved as a true record and be signed by the Chair.

70 PROCUREMENT UPDATE

The Chief Executive presented to the committee an update on Procurement in response to a request received by the committee following its meeting in July 2020.

It was acknowledged that a new strategy had not yet been implemented and the council was continuing to experience performance issues with its present supplier. The strategy was in the final stages of consultation and had been shared with the Chair and the Cabinet Member for Governance.

The new approach was focussed on category management and alongside this a suitable cloud-hosted ICT system had been identified funded from the Council's ICT Improvement budget.

The guidance and training on the new strategy had been developed and was due to commence in December 2020. The preference would have been for this to have been started sooner but pressures due to COVID had prevented this.

The new system would integrate with the Council's finance system enabling to enable data analysis and identify potential savings. The reports requesting approval to adopt the strategy and the recommended structure would be presented to the Joint Cabinet and Employment and General Committee on 20 October, 2020.

The committee requested a copy of the Business Plan and it was agreed to include this in the report presented to Employment and General and provide a copy to members of the Standards and Audit committee.

The Chief Executive noted his respect for the check and challenge role of the Standards and Audit Committee and confirmed he was happy to return and provide further updates as required. It was proposed that Internal Audit conduct a further audit in Spring 2021.

RESOLVED –

1. That the update be noted.
2. That an audit of the Procurement function be added to the Audit Plan for 2021.

71 SUMMARY OF INTERNAL AUDIT REPORTS ISSUED AND PROGRESS UPDATE ON THE 2020/21 INTERNAL AUDIT PLAN

The Internal Audit Consortium Manager presented a report summarising the internal audit reports issued during the period 27 June to 28 August, 2020, in respect of reports issued relating to the 2020/21 internal audit plan.

It was noted that 3 reports had been issued during this period with the following levels of assurance:

- 'Reasonable Assurance' – 3

A summary of these reports was attached at Appendix 2 to the report and a progress report on the 2020/21 Internal Audit Plan was attached at Appendix 1. The committee was advised that the focus was on high risk areas currently due to the possibility that completion of all reports may not be achieved as a result of COVID-19.

The committee was informed that no fraud had been discovered.

*** RESOLVED –**

1. That the report be noted.
2. That the impact of the coronavirus on the ability to complete the current audit plan and the potential for future changes to the plan is noted and approved.

72 STANDARDS AND AUDIT COMMITTEE ANNUAL REPORT

The Chair of the Standards and Audit Committee, Internal Audit Consortium Manager and the Local Government and Regulatory Law Manager submitted the Annual Report of the Standards and Audit Committee, attached at Appendix 1 to the officer's report, which summarised the work carried out by the Committee during the financial year 2019/20.

It was noted that the Annual Report would be considered for approval by full Council on 14 October, 2020.

***RESOLVED –**

That the Annual Report of the Standards and Audit Committee for 2019/20 be noted and referred to full Council for approval.

73 EXTERNAL REVIEW OF INTERNAL AUDIT

The Internal Audit Consortium Manager advised the committee that the Public Sector Internal Audit Standards require that an external assessment be carried out at least once every five years by a qualified independent assessor. The last assessment took place in the summer of 2016.

It was proposed that the independent assessor would review performance against the Chartered Institute of Public Finance and Accountancy (CIPFA) Public Sector Internal Audit Standards checklist.

A survey had been carried out amongst neighbouring internal audit providers to determine who to approach for quotes. It was noted that the assessor may wish to speak with the section 151 officer, the Chair of the committee and audit staff and a sample of clients.

RESOLVED -

1. That the Standards and Audit Committee authorise proceeding with the procurement of an external provider to undertake an external assessment of the Internal Audit Consortium and Derbyshire Dales District Council.
2. That the Standards and Audit Committee delegate authority to the Internal Audit Consortium Manager and the Section 151 Officers to agree the specification of the assessment, to assess quotations received based on cost and quality and to appoint an external provider to undertake the assessment.

74

REVIEW OF THE INTERNAL AUDIT CHARTER

The Internal Audit Consortium Manager submitted a report detailing the results of the Internal Audit Charter review.

The Public Sector Internal Audit Standards (PSIAS) required the head of internal audit to periodically review the Charter and for the findings to be presented to the Standards and Audit Committee. It was agreed that the Charter be reviewed every 2 years, the Charter was last formally approved in 2018.

The current Charter had been reviewed and was found to be fit for purpose.

***RESOLVED –**

1. That Members note the outcome of the review of the Internal Audit Charter.

2. That subject to any comments Members may wish to make, that the Internal Audit Charter be agreed.
3. That the agreed Internal Audit Charter be reviewed in a years' time or sooner in the event of any significant changes being made to the Public Sector Internal Audit Standards.

75 RISK MANAGEMENT STRATEGY AND ANNUAL REVIEW

The Group Financial Accountant presented a report on risk management developments during the year 2019/20 and recommended for approval the updated Risk Management Policy, Strategy and Corporate Risk Register for 2020/21.

The Committee were informed of the key risks that the Council had faced during 2019/20, as set out in paragraph 8.1 of the officer's report, and were advised of the work undertaken to mitigate the risks. It was noted that the most challenging area had been the impact of COVID-19 but the committee were informed that all service leads had conducted risk assessments and updated documentation accordingly.

*** RESOLVED –**

1. That the progress made on developing the Council's approach to risk management during 2019/20, be noted.
2. That the Committee recommends that full Council approve the Risk Management Policy, Strategy and the Corporate Risk Register for 2020/21.

76 TREASURY MANAGEMENT ANNUAL REPORT 2019/20 AND MONITORING REPORT 2020/21

The Group Financial Accountant presented a report for Members to consider the Annual Treasury Management Report for 2019/20 and the Treasury Management activities for the first five months of 2020/21.

The report confirmed that during 2019/20 the Council had complied with its legislative and regulatory requirements.

RESOLVED –

That it be recommended to Full Council that:

1. the outturn Prudential Indicators for 2019/20 be approved;
2. the treasury management stewardship report for 2019/20 be approved;
3. the treasury management position for the first five months of 2020/21 be noted.

77 AUDIT REPORT ON THE 2019/2020 STATEMENT OF ACCOUNTS

The Chief Finance Officer submitted a report on the Statement of Accounts for 2019/20, the 'Letter of Representation' and the External Auditor's 'Report to those Charged with Governance'.

The Statement of Accounts was attached to the report at Annexe 1 and included the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Disclosure Notices and the Annual Governance Statement.

The Council's external auditors were required to obtain written representations from management in respect of fraud, compliance with laws and regulations, contingent liabilities, related party disclosure and post balance sheet events in the form of a letter of representation. The letter was attached to the report at Annexe 3.

The external auditor was required to 'communicate audit matters to those charged with governance', i.e. the Standards and Audit Committee, and a copy of the external auditor's report was attached to the report at Annexe 2. Mr Mark Dalton and Mr Michael Norman of Mazars attended the meeting to present the External Auditor's 'Report to those Charged with Governance'.

The external auditor noted that they were awaiting assurances from the Derbyshire Pension Fund auditor with regards to the estimate of liability for the pensions calculation. The committee was assured that any change would not be significant enough to affect their opinion.

*** RESOLVED –**

1. That the Statement of Accounts for 2019/20 be approved.
2. That the Management Letter of Representation be approved and signed by the Chair.
3. That the Report to those Charged with Governance be noted.

78 LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN ANNUAL REVIEW LETTER 2019/2020

The Monitoring Officer presented a report to the committee informing members about the Local Government and Social Care Ombudsman Annual Review Letter.

It was confirmed that there had been no complaints upheld by the Ombudsman against the Council in the last six years.

RESOLVED –

That the report be noted.

79 COVID-19 - BUSINESS AND PLANNING ACT 2020

The Monitoring Officer presented a report to the committee requesting that an appropriate delegation be put in place to enable the provisions of the Business and Planning Act 2020 relating to determining Additional Environmental Approvals to be put into effect.

The Chair of Planning had been consulted and had no objections. The decisions would be delegated to the Development Management and Conservation Manager consistent with the systems already in place.

RESOLVED –

That the officer delegation proposed in the report be agreed.

This page is intentionally left blank

For publication

Outstanding Internal Audit Recommendations

Meeting: Standards and Audit Committee

Date: 25th November 2020

Cabinet portfolio: Governance

Report by: Internal Audit Consortium Manager

For publication

1.0 **Purpose of report**

1.1 To present for members' information a summary of outstanding internal audit recommendations and the progress being made to implement them.

2.0 **Recommendations**

2.1 That the report be noted, and it acknowledged that the implementation of some recommendations has been delayed due to the impact of COVID 19.

2.2 That a further summary of outstanding internal audit recommendations be submitted to the Standards and Audit Committee in July 2021.

3.0 **Report details**

- 3.1 It has previously been agreed by the Standards and Audit Committee that a report detailing outstanding internal audit recommendations be brought to the Standards and Audit Committee every 6 months. Due to COVID-19, the last report due to be presented in April 2020 was deferred.
- 3.2 The implementation of audit recommendations is being monitored by the Corporate Management team on a regular basis and they have committed to being pro- active in ensuring that recommendations are implemented as agreed where possible.
- 3.3 Attached, as Appendix 1, is a summary of outstanding internal audit recommendations as at the end of October 2020. It should be noted that the implementation of some recommendations has been delayed due to the impact of COVID 19.
- 3.4 The timely implementation of internal audit recommendations helps to ensure that the risk of error or fraud is reduced and that internal controls are operating effectively.

4.0 **Alternative options and reasons for rejection**

- 4.1 The report is for information.

5.0 **Recommendations**

- 5.1 That the report be noted, and it acknowledged that the implementation of some recommendations has been delayed due to the impact of COVID 19.
- 5.2 That a further summary of outstanding internal audit recommendations be submitted to the Standards and Audit Committee in July 2021.

6.0 **Reasons for recommendations**

- 6.1 To inform Members of the internal audit recommendations outstanding so that they can assess if appropriate and timely action is being taken.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

Report author	Contact number/email
Jenny Williams – Internal Audit Consortium Manager	01246 959770 Jenny.williams@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix 1	Summary of outstanding audit recommendations as at the end of October 2020

This page is intentionally left blank

Summary of Outstanding Internal Audit Recommendations as at end of October 2020

Audit	Date Audit Undertaken	Outstanding recommendations
Choice Based Lettings	May 2017	1 Medium
Money Laundering	March 2018	1 Low (extended to Dec 20)
Laptops and removable media	January 2019	2 Medium 1 Low
Sickness Absence Management	March 2019	1 Medium 1 Low (extended to Jan 21)
Housing Repairs	June 2019	3 Medium 1 Low (affected by COVID 19)
Food Hygiene	May 2019	1 Medium 1 Low (affected by COVID)
Data Protection & FOI	September 2019	1 Low
NNDR	September 2019	1 Low (affected by COVID 19)
Museum	September 2019	1 Low
Property Safety Inspections	October 2019	3 Medium 1 Low (affected by COVID 19)
Corporate Health & Safety	October 2019	2 Medium (affected by COVID)
Treasury Management	January 2020	1 Low (extended to April 2021)
Cemeteries Income	February 2020	1 Low (affected by COVID 19)
Payroll	February 2020	4 Low (affected by COVID 19)
Recruitment & Selection	May 2020	2 Medium 2 Low (affected by COVID 19)

N.B Previous Outstanding Procurement recommendations superseded by the latest audit

Audit Recs 17/18	Recommendations	Priority	Agreed Implement ation Date	Managers Comments
Choice Based Lettings – May 17	Procedural notes, flowcharts and associated letter templates should be updated to accurately reflect current procedures and be aligned with the current policy	M	July 2018 Extended to March 2020	
Money Laundering – March 18	An internal risk assessment should be conducted to assess the level of exposure to the Authority, as required within the AML Regulations	L	March 2019 Extended to December 2020	Training has been provided. The risk assessment is progressing.

Audit Recs 18/19	Recommendations	Priority	Agreed Imp Date	Managers Comments
Laptops and other Removable Media – January 19	A policy needs to be established to give clear guidance to management with regards to returning laptops / removable media equipment to IT when an employee leaves their post and ensuring IT are made aware if equipment is transferred to a different user.	M	1st June 2019	
Laptops and other Removable Media – January 19	It is essential that the primary database held in ICT which records the distribution of laptops and other removable media devices owned by Chesterfield Borough Council is being updated in an efficient and precise manner.	M	31 st December 2019	
Laptops and other Removable Media – January	The user profiles held on the laptops should be deleted when a user is no longer employed by Chesterfield Borough Council	L	31 December 2019	

Audit Recs 18/19	Recommendations	Priority	Agreed Imp Date	Managers Comments
19				
Sickness Absence Management – March 19 Page 1	It should be ensured that a fit for purpose sickness management process be introduced to ensure centralised and consistent record keeping, correct disposal of information and that managers have direct access to sickness information where needed to reduce duplication of records and input errors.	M	March 2020 Extended to January 2021	A Resourcelink expert has now been recruited to lead on the implementation of the leave management module (includes any type of leave and absence management) and we aim to get this implemented by January if we can. This will remove all manual processes for sickness absence and should drastically improve the error rates.
Sickness Absence Management – March 19	Consideration should be given to reporting sickness absences to department managers to ensure that the reports being produced are relevant and practical.	L	July 2019 Extended to January 2021	The implementation of Resourcelink absence management modules is key to the provision of accurate data and practical and relevant reports being available at first line manager level. This should be in place by January 2021.
Housing Repairs – June 19	It should be ensured that the monitoring of inspections is improved. This should include: <ul style="list-style-type: none"> • Reviews of outstanding inspections to identify completed or duplicate requests. • Implementation of the improved post inspection monitoring system across the responsive repairs area. 	M	September 2019 Affected by COVID 19	Pre-Inspections are now only produced Electronically (not printed). The relevant Inspectors receive the inspections through their technology and review on a daily basis. All works orders raised are also electronic – no paper orders from Northgate or Coins but this is still the backup process if ICT failure. Post Inspection re-view no change and delayed due to Covid 19. This

Audit Recs 18/19	Recommendations	Priority	Agreed Imp Date	Managers Comments
				will be looked at as soon and we possibly can given the current workload on the team.
Housing Repairs – June 19	It is essential that a regular costing exercise is completed to ensure that the responsive repairs jobs are profitable for OSD, Consideration should be given to implementing this as part of the inspection process.	M	September 2019 Affected by COVID 19	Identified to be part of the Post Inspection checks. On a value over £1000.00. delayed due to Covid and the Senior Technical Officer – Performance dealing with other work streams. Will commence again once workload has decreased and it can be focused upon.
Housing Repairs – June 19 Page 18	It is essential that council's procurement guidelines are complied with in regards to OSD suppliers. Consideration should be given to joining or creating a framework or selection of frameworks that would allow responsive repairs to be completed in short notice and in compliance with the public sector procurement regulations.	M	April 2020 Affected by COVID 19	The procurement of suppliers has been delayed due to Covid. The Council is looking at a new procurement process and system which would include the possibility of a dynamic procurement system which would help to address with this issue and give the facility to access services with short notice.
Housing Repairs – June 19	It should be established whether there is a business need to send out customer satisfaction surveys, should these be required the monitoring system should be reviewed and updated adequately.	L	April 2020 Affected by COVID 19	Further discussions to take place to determine best option and requirements for the service.

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
<p>Page 19</p> <p>Food Hygiene – May 19</p>	<p>It is essential that a document retention exercise is completed as soon as possible to ensure that data protection and data retention periods are adhered too.</p>	<p>M</p>	<p>January 2020</p> <p>Affected by COVID 19</p>	<p>No specific information has been moved across and it is still held in M3. We are being discouraged from moving masses of information across unnecessarily. However, it can be moved but I have yet to be shown where information if any has moved across in a demo session. This still needs to be worked on but presently it is not on my priority list and I do not know how to do it in M3 so would need assistance on cleaning.</p>
<p>Food Hygiene – May 19</p>	<p>Consideration should be given to producing quarterly reports illustrating performance to the Assistant Director Health and Wellbeing in order that any issues are addressed promptly (e.g. 28 day target not being achieved and cause)</p>	<p>L</p>	<p>January 2020</p> <p>Affected by COVID 19</p>	<p>Reports can be created quite easily now on the new system should they be required. However, with the current situation in place targets have not been achieved for most interventions and there are possibly hundreds overdue. When there is some normality to the team's workings, then yes this can be done.</p>
<p>Data Protection & FOI requests – September 19</p>	<p>To adhere to the process of updating policies at their expected review date</p>	<p>L</p>	<p>31st December 2019</p>	<p>This is ongoing but has slipped a bit this year due to other priorities (Covid). The Data Protection Policy was reviewed in the summer and is available on Aspire. Information Security Policy was due for review in September and is now overdue.</p>

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
National Non Domestic Rates – September 19	As agreed, it is essential that when the inspection outstanding report is obtained the existing outstanding inspection report is to be reviewed and any outstanding inspections allocated and properties visited	L	31st October 2019 Affected by COVID 19	Review next audit – visits affected by COVID 19
Museum & Revolution House Income Audit – September 19	It is recommended that a lock is provided for the donations box as soon as practical.	L	End November 2019	Not completed – not as simple as first thought
Property Inspections – October 19	As agreed in the previous audit it would be prudent to create a solid fuel service and electrical inspection service option on the keystone asset management system to enable it to be used for these services (similar to the gas servicing programme).	M	1st April 2020 Affected by COVID 19	<p>The Solid Fuel servicing of CBC appliances and tenants own at the time of the last service are recorded within the gas Servicing database (Keystone) to produce the 'next service date' the same as Gas servicing. This was put in placing following the previous Audit.</p> <p>Discussions have already taken place with Asset Management to produce a 5 year programme of Electrical Testing. Once agreed a database in Keystone can be created alongside the Gas/solid fuel database. ICT involvement / assistance will be required to create the new database. Discussions are taking place with regards to replacing/upgrading the current Keystone system. The 'new'</p>

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
Page 6				<p>system will look to incorporate the recommendations.</p> <p>A decision is required by Housing to agree whether CBC will accept Solid Fuel appliances in CBC owned properties. Consideration on the cost of servicing the additional appliances and the environmental impact/policy</p>
	<p>Property Inspections – October 19</p>	<p>An annual reconciliation of properties on the keystone system and properties on each service programme should be completed to ensure that all properties are recorded within the correct programmes</p>	<p>M</p>	<p>October 2019</p> <p>Affected by COVID 19</p>

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
				<p>regards to replacing/upgrading the current Keystone system. The 'new' system will look to incorporate the recommendations.</p> <p>Note that during the Covid 19 Pandemic the service dates of a number of properties have gone over the service date. Currently working through the list to bring back in line as quick we can.</p>
<p>Property Inspections – October 19</p> <p>Page 22</p>	<p>It is essential that a comprehensive record of electrical testing is created and that this is then used to create a programme of electrical testing ensuring that all council properties are fully compliant within the 5-year period.</p>	M	<p>April 2020</p> <p>Affected by COVID 19</p>	<p>This is on-going with a 'new' list provided for 2020/2021. The programme has been In progress as of July 2020. Delayed due to Covid 19 Pandemic and therefore the potential number of properties tested this year will be reduced.</p> <p>A programme has been produced by Asset Management and the programme delivered for OSD by an Electrical Sub-Contractor.</p> <p>Difficulties in gaining access increased due to the Covid 19 pandemic.</p>
<p>Property Inspections – October 19</p>	<p>It is essential that monitoring statistics are available for all type of service, if services are expanded with keystone as part of R1 monitoring reports should also be created.</p>	L	<p>April 2020</p> <p>Affected by COVID 19</p>	<p>Once reports are available we can see what monitoring statistics can be produced. It is unsure what report was run and what criteria was used to arrive at the 330 properties. Keystone does not hold the same</p>

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
Page 3				number of properties as Northgate due to there not being each service currently recorded on the system. Discussions are taking place with regards to replacing/upgrading the current Keystone system. The 'new' system will look to incorporate the recommendations if not available currently.
Corporate Health & Safety – October 19	That the column in Health and Safety Committee reports detailing the action taken to prevent the re-occurrence of an accident be re-instated in order that the Committee can review and call officers to account if necessary.	M	December 2019	The format and content of the reports for the health and safety committee are being reviewed in their entirety to ensure the full suite of documents remain relevant.
Corporate Health & Safety – October 19	<p>That completed actions on the Health and Safety Recovery Plan be signed off and that a new plan be developed that includes the issues identified as still in progress by this audit. These issues are :-</p> <ul style="list-style-type: none"> • That the structure / resource levels of Corporate Health and Safety is kept under review • Review of policies to be completed. Policies to be approved and placed on the intranet. • That the Asbestos Management Plan and Policy are placed on the intranet • That SHE training is provided to all officers (that have not yet had it) that may need to log an accident or work related stress. 	M	March 2020 Affected by COVID 19	The action plan is being updated to reflect those actions that still require further development. This has not been completed due to the impact of Covid-19 and remains an area to be completed.

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
	<ul style="list-style-type: none"> • That use of the SHE system is developed including a range of management reports • That further work is undertaken to embed health & safety in to the culture e.g. ensuring that all work related stress is logged on the SHE system, that fire risk assessment actions are completed in a timely manner and that accidents are fully investigated with actions taken to avoid a re-occurrence being logged. • That the Lone worker review and Policy are completed 			
Treasury Management – January 20 Page 24	Consideration should be given to recording the brokers fees and gross investment income for investments and money markets funds within the councils FMS to ensure that the amount of fees being charged can be monitored	L	31st March 2020 Extended to 1st April 2021	We were looking at bringing this in from the start of the 20/21 financial year. However, as we were all working from home at the time we didn't easily have access to the information we needed to do this and will instead look at implementing from 1 st April 2021.
Cemeteries Income – February 20	A procedure needs to be established regarding the responsibility and pricing of memorial benches	L	30th April 2020 Revised date 31 st December 2020	Affected by COVID
Payroll – February 20	On conclusion of the payroll project, it would be prudent to examine number of errors occurring to ascertain: -	L	TBC Affected by	The payroll project stalled due to sickness and Covid. Changes will be made when Payroll comes back

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
	<ul style="list-style-type: none"> accuracy improvement achieved any areas requiring further review. 		COVID 19	in house and support services can be restructured to put payroll processors under payroll.
Payroll – February 20 Page 25	Consideration should be given to a joint review (payroll and HR) of the current sickness recording process to address the errors and identify ways of improvement e.g., increased Manager’s training	L	TBC Affected by COVID 19	I have now recruited a resourcelink expert to lead on the implementation of the leave management module (includes any type of leave and absence management) and we aim to get this implemented by January if we can. This will remove all manual processes for sickness absence and should drastically improve the error rates.
Payroll – February 20	It would be prudent to periodically request returns (i.e. Minimum annually) to ensure all Managers have reviewed the establishment lists and confirmed accuracy.	L	TBC Affected by COVID 19	The payroll project stalled due to sickness and Covid 19. Changes will be made when Payroll comes back in house and support services can be restructured to put payroll processors under payroll.
Payroll – February 20	As the waiver for the Resource Link contract end date is 31 st March 2021, it is essential that the appropriate action to commence procurement/obtain tenders is scheduled with a realistic timeframe	L	TBC Affected by COVID 19	Covid has affected the resources available to move this forward. A meeting is to take place with legal to progress this.
Recruitment and Selection – May 20	It is essential that the Recruitment & Selection policy is updated as soon as possible to ensure the correct policy documents/guidance is available and that the revised policy is reviewed at regular	M	End August 2020	Affected by COVID 19

Audit Recs 19/20	Recommendations	Priority	Agreed Imp Date	Managers Comments
	intervals.			
Recruitment and Selection – May 20	It would be prudent for HR to remind managers of the importance of retaining interview records including any interview notes for the designated period.	L	End June 2020 Affected by COVID	Remind service managers of the need to retain all recruitment paperwork for 6 months, thereafter destroy it as confidential waste. <i>This requirement will be included in an email to managers when the employee has been in post for 6 months at the stage the employee has their probation period confirmed.</i>
Recruitment and Selection – May 20 Page 26	It would be prudent for HR to remind managers the importance of destroying/deleting relevant documentation in relation to recruitment and selection in line with GDPR guidance	L	End June 2020 Affected by COVID 19	Remind service managers of the need to retain all recruitment paperwork for 6 months, thereafter destroy it as confidential waste. <i>This requirement will be included in an email to managers when the employee has been in post for 6 months at the stage the employee has their probation period confirmed.</i>

For publication

Summary of Internal Audit Reports Issued and Progress Update on the 2020/21 Internal Audit Plan

Meeting:	Standards and Audit Committee
Date:	25 th November 2020
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

To present for members' information a summary of Internal Audit Reports issued during September and October 2020 in respect of the 2020/21 internal audit plan. The report also includes an appendix detailing the 2020/21 internal audit plan and progress to date.

2.0 Recommendations

- 2.1 That the report be noted.
- 2.2 That the impact of COVID 19 and the secondment of the Audit team to process business grants on the ability to complete the 2020/21 Internal Audit Plan be noted.

3.0 **Report details**

PROGRESS ON THE 2020/21 INTERNAL AUDIT PLAN

- 3.1 The Public Sector Internal Audit Standards require that the Internal Audit Consortium Manager reports periodically to the Standards and Audit Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.
- 3.2 The 2020/21 Internal audit plan was approved at the Standards and Audit Committee on the 5th May 2020. The internal audit team are currently working to this plan (Appendix 1).
- 3.3 A mid- year review of progress against the internal audit plan and a discussion in relation to the potential risks arising due to COVID 19 has been undertaken with the Chief Financial Officer. On the whole, it is felt that the current plan is still appropriate. For the areas reviewed it will be ensured that COVID 19 has not adversely affected the controls in place. It may still be necessary to vary the plan if specific risks emerge.
- 3.4 At the beginning of November 2020 the Senior Auditor was seconded as team leader to implement a procedure and to oversee the payment of the latest business grants due to the second lockdown. The 2 Auditors are also now aiding in the processing of the applications from Businesses. This will have a further impact on the completion of the audit plan.
- 3.5 Appendix 1 shows the 2020/21 internal audit plan and details the audits that have been completed and those in progress. It is considered that reasonable progress is being made given the circumstances.

SUMMARY OF AUDITS ISSUED

- 3.6 Attached, as Appendix 2, is a summary of reports issued during September and October 2020 for audits included in the 2020/21

internal audit plan. This period 5 reports have been issued 3 with substantial assurance and 2 with reasonable assurance.

3.7 Appendix 2 details for each report a summary of the scope and objectives of the audit, the overall conclusion of the audit and the number of recommendations made / agreed where a full response has been received.

3.8 The conclusion column of Appendix 2 gives an overall assessment of the assurance that can be given in terms of the controls in place and the system's ability to meet its objectives and manage risk in line with the definitions below.

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

3.9 In respect of the audits being reported, it is confirmed that no fraud was detected.

3.10 The production of this report ensures that Members charged with governance are aware of any internal control weaknesses or fraud identified by internal audit.

4.0 Alternative options and reasons for rejection

4.1 The report is for information.

5 Recommendation

5.1 That the report be noted.

5.2 That the impact of COVID 19 and the secondment of the Audit team to process business grants on the ability to complete the 2020/21 Internal Audit Plan be noted.

6 Reasons for recommendation

6.1 To inform Members of the internal audit reports issued in order that the strength of the internal controls in place can be assessed.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

Report author		Contact number/email
Jenny Williams - Internal Audit Consortium Manager		01246 959770 EX 6770 Jenny.williams@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.		
Appendices to the report		
Appendix 1	2020/21 Internal audit plan and progress to date	
Appendix 2	Summary of Internal Audit Reports Issued	

Chesterfield Borough Council Internal Audit Plan 2020/21

	Audit Complete
	Audit in Progress
	Ongoing

Main Financial Systems	Priority	Audit Days 2020/21	
Cash and Banking	M	15	
CIPFA Financial Management Code of Practice	M	10	
Creditor Payments (Accounts Payable)	H	25	
Housing / Council Tax Benefits	H	20	
Housing Rents	H	20	
Housing Repairs – Revenue (Voids)	M	20	
Council Tax	M	15	
Payroll	H	20	
VAT	L	8	
Total		153	
Other Operational Audits			
Brimington Parish Council	N/A	5	
Choice Based Lettings	M	10	
Community Safety	L	10	
Contract Final Accounts		5	
Committee report process	M	10	
Crematorium	H	12	
Healthy Living Centre	M	15	
Markets Income	M	12	
PPP Client Monitoring Procedures		5	
Rechargeable Repairs	L	10	
Refuse Collection – Domestic	L	10	
Sale of Council Houses	M	10	
Section 106 / CIL Agreements	M	12	
Stores	L	10	
Taxi Licences	M	12	
Queens Park Sports Centre	M	20	
Total		168	
Computer and IT Related			
Cyber risks / network security / DR	H	15	
Inventory / disposal of old equipment	M	10	
New system Review / upgrades		5	
Total		30	

Cross Cutting Issues			
Business Continuity Planning	M	12	
Climate Change	H	5	
Corporate Governance and Annual Governance Statement	H	18	
Ethical Governance	M	12	
Financial Advice / Working Groups/Transformation Projects		25	
Property Repairs (Non housing)	H	12	
Projects e.g. Economic Development, Town Hall restack	M	20	
Safeguarding	M	12	
Total		116	
Fraud and Corruption			
Review of Anti- Fraud Bribery and Corruption Strategy	M	3	
Total		3	
Location / Regularity			
Petty Cash	L	5	
CIPFA Apprenticeship		30	
Contingency/Special Investigations		30	
Update Test Schedules		10	
Audit Committee / Client Officer Liaison		15	
Planned Total Days 2020/21		560	

Chesterfield Borough Council – Internal Audit Consortium

Report to Standards and Audit Committee

Summary of Internal Audit Reports Issued September and October 2020

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
005	Stores	To ensure that stocks of materials etc. are well controlled.	Reasonable	8/9/2020	29/9/2020	10/9/20	6 (3ML)	6
006	Climate Change	To ensure that the Council is taking appropriate action to achieve the carbon reduction targets that have been set.	Substantial	29/9/2020	20/10/2020	Note 1	3 (1M2L)	3
007	VAT	To ensure that VAT returns are completed promptly and accurately	Substantial	29/9/2020	20/10/2020	Note 1	1L	1
008	Sale of Council Houses	To ensure that the established procedures are followed.	Reasonable	1/10/2020	22/10/2020	Note 1	2M	

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
009	Housing Benefits and Council Tax Support	To ensure that Housing Benefits and Council Tax Support are paid promptly and accurately	Substantial	1/10/2020	22/10/2020	N/A	0	0

H = High Priority
M = Medium Priority
L = Low priority

Note 1 Response not received at time of writing report

This page is intentionally left blank

For publication

CIPFA's Audit Committees Practical Guidance for Local Authorities and Police
2018 Edition including a self - assessment

Meeting: Standards and Audit Committee

Date: 25th November 2020

Cabinet portfolio: Governance

Report by: Internal Audit Consortium Manager

For publication

1.0 Purpose of report

1.1 To present for members' information CIPFA's "Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition" and to enable members to undertake a self-assessment.

2.0 Recommendations

2.1 That the report be noted.

2.2 That members complete the self- assessment before the next meeting of the committee and forward any comments to the Internal Audit Consortium Manager, the Monitoring Officer and the Chair of the Committee.

2.3 That a report be brought to the next Audit Committee summarising the comments made and formulating an action plan (if required) for approval.

3.0 **Report details**

- 3.1 CIPFA's Audit Committee guidance is attached as Appendix A. The publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and represents best practice for audit committees throughout the UK.
- 3.2 The guidance contains a number of chapters: -
- Introduction
 - CIPFA's Position Statement: Audit Committees in Local Authorities and Police
 - The purpose of Audit Committees
 - The core functions of an Audit Committee
 - Possible wider functions of an Audit Committee
 - Independence and Accountability
 - Membership and effectiveness
- 3.3 At Page 73 Appendix D of CIPFA'S publication there is a self-assessment of good practice. This provides a high-level review that incorporates the key principles set out in CIPFA's position statement and publication. Where an Audit Committee has a high degree of performance against the good practice principles, then it is an indicator that the Committee is soundly based and has in place a knowledgeable membership. These are essential factors in developing an effective audit committee.
- 3.4 In July 2018 the Standards and Audit Committee undertook the self-assessment at Appendix B. At this time, the action plan arising from the 2017 review had been fully implemented and there were no further points arising.
- 3.5 It is proposed that the self-assessment of good practice is now completed again and if necessary, an action plan for improvement be developed following this exercise. It is recommended that members complete the self

-assessment before the next meeting and forward any comments they may have in relation to the self-assessment questions to the Internal Audit Consortium Manager, the Monitoring Officer and the Chair of the Committee. The comments will then be reviewed and incorporated into an action plan to be brought to the next committee meeting.

4 Alternative options and reasons for rejection

4.1 It is not mandatory to complete a self-assessment however it is best practice and helps to evidence that the Committee takes its roles and responsibilities seriously and seeks to perform its role in line with CIPFA guidance.

5 Recommendations

5.1 That the report be noted.

5.2 That members complete the self- assessment before the next meeting of the committee and forward any comments to the Internal Audit Consortium Manager, the Monitoring Officer and the Chair of the Committee.

5.3 That a report be brought to the next Audit Committee summarising the comments made and formulating an action plan (if required) for approval.

6 Reasons for recommendations

6.1 To enable the Standards and Audit Committee to undertake a self-assessment. The self- assessment will demonstrate where best practice is occurring and identify any potential areas of weakness that can be addressed via an action plan.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for

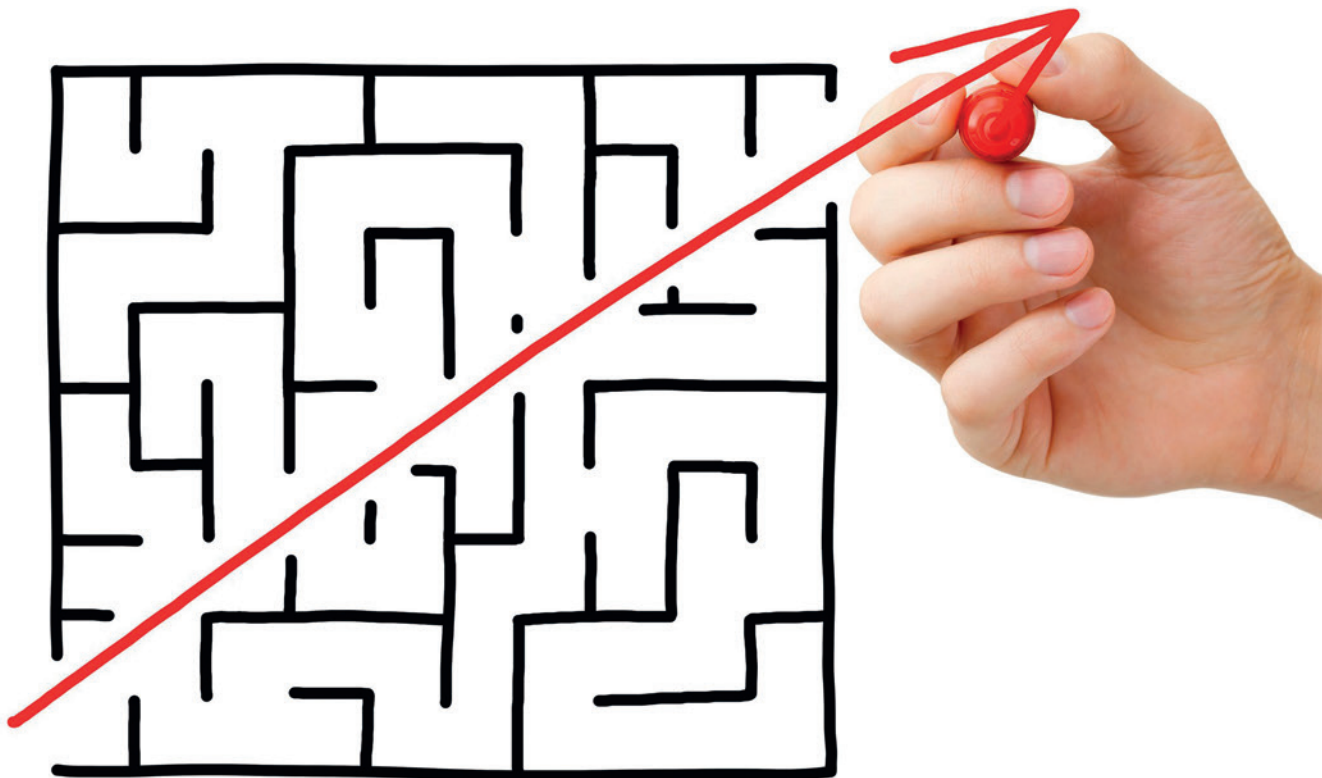
	money services.
--	-----------------

Document information

Report author	Contact number/email
Jenny Williams - Internal Audit Consortium Manager	01246 959770 Jenny.williams@chesterfield.gov.uk
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix A	Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition
Appendix B	Audit Committee self- assessment November 20
Appendix C	Article 9 The Standards and Audit Committee (Terms of Reference)

audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

CIPFA values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to customerservices@cipfa.org.

Our range of high quality advisory, information and consultancy services help public bodies – from small councils to large central government departments – to deal with the issues that matter today. And our monthly magazine, *Public Finance*, is the most influential and widely read periodical in the field.

Here is just a taste of what we provide:

- TISonline
- Benchmarking
- Advisory and consultancy
- Professional networks
- Property and asset management services
- CIPFA-Penna recruitment services
- Research and statistics
- Seminars and conferences
- Education and training

Call or visit our website to find out more about CIPFA, our products and services – and how we can support you and your organisation in these unparalleled times.

020 7543 5600

customerservices@cipfa.org

www.cipfa.org



audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ customerservices@cipfa.org \ www.cipfa.org

© March 2018 CIPFA

ISBN 978 1 84508 492 9

Designed and typeset by Ministry of Design, Bath
(www.ministryofdesign.co.uk)

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.

Acknowledgements

A sincere thanks to all those who have provided content, comment and feedback on this publication, including Keeley Lund, Kerry Ace, Alison Dewhirst and Alison Scott. Comments on external audit have been provided by David Aldous and Andrew Kendrick at the National Audit Office and Jon Hayes at Public Sector Audit Appointments, and we appreciate their input.

Thanks also to the audit committee members who have attended our training courses for providing their insight into the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.



Diana Melville

Governance Advisor, CIPFA

Contents

CHAPTER 1: INTRODUCTION	1
CHAPTER 2: CIPFA’S POSITION STATEMENT: AUDIT COMMITTEES IN LOCAL AUTHORITIES AND POLICE .	3
CHAPTER 3: THE PURPOSE OF AUDIT COMMITTEES	7
CHAPTER 4: THE CORE FUNCTIONS OF AN AUDIT COMMITTEE	11
INTRODUCTION.....	11
GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT	12
INTERNAL AUDIT	13
RISK MANAGEMENT	16
ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING.....	17
VALUE FOR MONEY AND BEST VALUE	17
COUNTERING FRAUD AND CORRUPTION	18
EXTERNAL AUDIT.....	19
FINANCIAL REPORTING	22
PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS	23
GOVERNANCE AND ETHICAL VALUES.....	24
CHAPTER 5: POSSIBLE WIDER FUNCTIONS OF AN AUDIT COMMITTEE	27
CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES.....	27
ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES	28
TREASURY MANAGEMENT	28
CHAPTER 6: INDEPENDENCE AND ACCOUNTABILITY	31
INTRODUCTION.....	32
SECTOR AND DEVOLVED GOVERNMENT GUIDANCE	32
STRUCTURE AND INDEPENDENCE.....	33
SHARED AUDIT COMMITTEES	34
AUDIT COMMITTEES IN PARTNERSHIP	34
DECISION-MAKING POWERS AND DELEGATIONS.....	34
ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS	35
ACCOUNTABILITY	37
CHAPTER 7: MEMBERSHIP AND EFFECTIVENESS	39
COMPOSITION AND OPERATION OF THE COMMITTEE	39
KNOWLEDGE AND EXPERIENCE	42
DEVELOPING AUDIT COMMITTEE EFFECTIVENESS.....	43
COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES	44
APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS	47
APPENDIX A: SECTOR AND DEVOLVED GOVERNMENT GUIDANCE	49
PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES.....	50

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT
MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE.....53

APPENDIX B: SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES AND POLICE 59

INTRODUCTION.....59

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES59

SUGGESTED TERMS OF REFERENCE – POLICE.....62

APPENDIX C: AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK..... 65

CORE AREAS OF KNOWLEDGE65

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE69

CORE SKILLS70

APPENDIX D: SELF-ASSESSMENT OF GOOD PRACTICE 73

APPENDIX E:EVALUATING THE EFFECTIVENESS OF THE AUDIT COMMITTEE 77

CHAPTER 1

Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)* ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

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 annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the [Accounts and Audit \(England\) Regulations 2015](#) state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit,

helping to ensure that it is adequate and effective. Both these elements are now enshrined in the [Public Sector Internal Audit Standards \(PSIAS\)](#) and the supporting [Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards \(LGAN\)](#).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)
- updates to the PSIAS in 2016 and 2017
- the [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014).

Legislation has also had an impact, in particular the [Local Audit and Accountability Act 2014](#), which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The [Policing and Crime Act 2017](#) enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2** 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.
- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4** The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process

- promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority’s risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority’s exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - be able to meet privately and separately with the external auditor and with the head of internal audit
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

The purpose of audit committees

Extract from the Position Statement

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- 2 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 internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Governance is defined in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) as follows:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- *To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the [Police Reform and Social Responsibility Act 2011](#). Guidance for police audit committees is contained in the [Financial](#)

Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

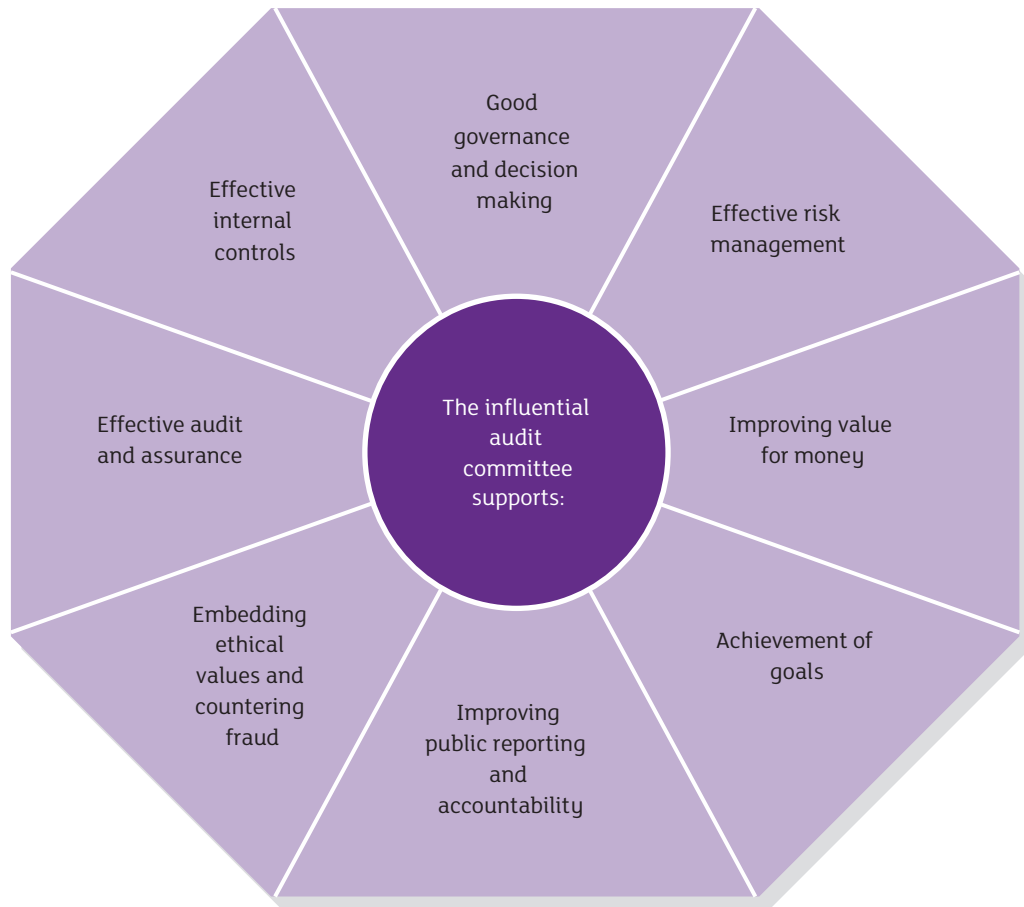
As a key component of an organisation’s governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need commitment and energy from the membership together with support and openness from the authority.

The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority’s goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and the local community.

The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

Figure 3.1: The influential audit committee



Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

CIPFA’s view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.

The core functions of an audit committee

Extract from the Position Statement

- 4 The core functions of an audit committee are to:
- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

INTRODUCTION

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities](#) (CIPFA/Solace, 2016).
- [Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales](#) (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the [Accounts and Audit Regulations 2015](#) must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on

assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the [Accounts and Audit Regulations 2015](#), the [Accounts and Audit \(Wales\) Regulations 2014](#), the [Local Authority Accounts \(Scotland\) Regulations 2014](#) and the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set

out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

1. oversee its independence, objectivity, performance and professionalism
2. support the effectiveness of the internal audit process
3. promote the effective use of internal audit within the assurance framework.

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

Oversee independence, objectivity, performance and professionalism

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with the PSIAS and the LGAN
 - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

- receiving updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- receiving communications from the head of internal audit on the internal audit activity's performance relative to its plan and other matters
- giving approval to internal audit for any significant additional consulting services not already included in the audit plan, prior to internal audit accepting an engagement
- receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS
- overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates
- receiving regular reports on the results of the QAIP, including the external assessment.

Promote the effective use of internal audit within the assurance framework

The audit committee should make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

The role of the audit committee in relation to risk management covers three major areas:

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
 - overseeing the authority's risk management policy and strategy and their implementation in practice
 - overseeing the integration of risk management into the governance and decision-making processes of the organisation
 - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
 - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
 - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
 - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
 - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference. The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the [Police Reform and Social Responsibility Act 2011](#), the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance

against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the [Bribery Act 2010](#).

The [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as [Fighting Fraud and Corruption Locally](#) should also be considered, along with the [CIPFA Fraud and Corruption Tracker](#) (CFaCT) and [Integrity Matters](#) (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

Oversight of counter fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance [Internal Audit's Role in Counter Fraud](#) (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

EXTERNAL AUDIT

Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the [Local Audit and Accountability Act 2014](#).

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see [Guide to Auditor Panels](#) (CIPFA, 2015).

The audit committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

The audit committee's role in relation to the external audit process has three principal aspects:

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive [guidance](#) from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

Each year the external auditor will disclose to the committee an assessment of whether it is independent. This disclosure should include any significant facts that could impact, or be seen to impact, on independence and objectivity, together with any safeguards put in place. Usually this disclosure is included in the audit plan. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards.

Understanding the potential threats to external independence

Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the [Revised Ethical Standard 2016](#) (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit make recommendations, the audit committee should discuss the action to be taken with the appropriate managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit letter.

Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
 - whether the external auditor has a good understanding of the authority
 - how the external auditor has responded to areas of audit risk
 - actions taken to safeguard independence and objectivity
 - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The [Accounts and Audit \(Wales\) \(Amendment\) Regulations 2018](#) require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must

publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

[Understanding Local Authority Financial Statements](#) (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the [Policing and Crime Act 2017](#). Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek

assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

GOVERNANCE AND ETHICAL VALUES

Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework:

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.

Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the [Public Interest Disclosure Act 1998](#). As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.

Possible wider functions of an audit committee

Extract from the Position Statement

- 5** An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the [Localism Act 2011](#), English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the [Code of Ethics](#) (College of Policing, 2014)
- [Tone from the Top: Leadership, Ethics and Accountability in Policing](#) (Committee on Standards in Public Life, 2015)
- [Integrity Matters](#) (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

TREASURY MANAGEMENT

[Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however,

that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

Where the committee is undertaking scrutiny then this is likely to involve the following actions:

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

Independence and accountability

Extract from the Position Statement

- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 7** To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

INTRODUCTION

CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the [Local Government \(Wales\) Measure 2011](#). The Welsh Government has provided [statutory guidance](#) on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's [Financial Management Code of Practice for the Police Forces of England and Wales](#) (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The [Policing and Crime Act 2017](#) enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.

Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

The standards committee's role has been affected by the [Localism Act 2011](#) in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

Other relevant recommendations

The [Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015](#), a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

STRUCTURE AND INDEPENDENCE

Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The [CIPFA Survey on Audit Committees in Local Authorities and Police 2016](#) found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

Combined authorities

The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

Police

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

SHARED AUDIT COMMITTEES

Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

AUDIT COMMITTEES IN PARTNERSHIP

Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

DECISION-MAKING POWERS AND DELEGATIONS

All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated

decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

[The Role of the Chief Financial Officer in Local Government](#) (CIPFA, 2016) and the [CIPFA Statement on the Role of Chief Financial Officers in Policing](#) (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in other parts of the public sector. The aim of this

is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an [Accountability System Statement for Policing and Crime Reduction](#) which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

A wider group of stakeholders, such as partner organisations or the police and crime panel, may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publishing agendas and minutes will support wider communication and transparency.

Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

Holding the audit committee to account

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

Membership and effectiveness

Extract from the Position Statement

- 6** Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the [Local Government \(Wales\) Measure 2011](#), which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the [Cities and Local Government Devolution Act 2016](#). The Act and the subsequent [Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#) require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent [report](#), ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. [Guidance on Audit Committees](#) (FRC, 2016) says that an audit committee should have at least three non-executive directors. The [Audit and Risk Assurance Committee Handbook](#) (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. [CIPFA's 2016 survey](#) of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the [Local Government and Housing Act 1989](#). Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or ‘context’ among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

Voting rights of independent members

Local authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the [Local Government Act 1972](#), making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

Recruitment process

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be

clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

KNOWLEDGE AND EXPERIENCE

There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.

The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

- an ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- an ability to bring an objective, apolitical attitude
- a core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for delivering effectiveness.

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective. **Page 91**

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

Areas of difficulty	Possible causes	Possible improvement options
Lack of experience and continuity of knowledge among audit committee members	<ul style="list-style-type: none"> Where turnover of membership is very frequent, it will be difficult for the committee to build up experience 	<ul style="list-style-type: none"> Enhanced level of support and training to members will be required To enhance continuity the authority could consider recruitment of independent members
Audit committee members do not feel confident in their knowledge of particular areas	<ul style="list-style-type: none"> Lack of training and support 	<ul style="list-style-type: none"> Enhanced level of support and training to members
Independent members lack knowledge of the organisation and lack connections with key managers	<ul style="list-style-type: none"> Poor induction Limited opportunities to engage with the organisation outside formal meetings 	<ul style="list-style-type: none"> Improve induction Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding
Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion	<ul style="list-style-type: none"> Lack of experience or skill in managing meetings by the chair Committee members are unsure about their role Poor support from the committee secretary 	<ul style="list-style-type: none"> Training and support Develop a mentoring/coaching programme Chair seeks feedback from meeting participants Consider skills and experience in the selection of the chair Provide training and guidance to committee members on their role Improve committee support
The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues	<ul style="list-style-type: none"> Agenda management fails to prioritise key areas The chair does not intervene to keep focus at an appropriate level 	<ul style="list-style-type: none"> Review the process of agenda development Review the terms of reference and provide training The chair seeks feedback from meeting participants Provide the chair with committee management training
The audit committee is little known or understood in many parts of the authority	<ul style="list-style-type: none"> The audit committee fails to engage with many parts of the authority Attendance is often limited to the CFO and the head of internal audit 	<ul style="list-style-type: none"> Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed

Areas of difficulty	Possible causes	Possible improvement options
The audit committee is little known or understood by those not on the committee	<ul style="list-style-type: none"> ■ Lack of feedback or reporting arrangements 	<ul style="list-style-type: none"> ■ Invite newly elected members to attend audit committee meetings ■ Review reporting arrangements ■ Consider an annual report that sets out how the committee has fulfilled its responsibilities
Recommendations made by the audit committee are not actioned	<ul style="list-style-type: none"> ■ Poor relationship between the committee and the executive or senior officers ■ The audit committee's recommendations are not adequately aligned to organisational objectives 	<ul style="list-style-type: none"> ■ A senior officer provides internal facilitation to support improved relationships ■ Improve knowledge and skills among audit committee members ■ Ensure better engagement with appropriate managers or the executive at an earlier stage
The audit committee fails to make recommendations or follow up on issues of concern	<ul style="list-style-type: none"> ■ A weak or inexperienced chair ■ Members are inexperienced or do not fully understand their role ■ Poor briefing arrangements prior to meetings ■ Committee reports fail to adequately identify the action required by the committee 	<ul style="list-style-type: none"> ■ Provide guidance and support ■ Improve briefing to the chair prior to the meeting ■ Ensure reports contain clear recommendations
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role	<ul style="list-style-type: none"> ■ The terms of reference do not adequately scope the work of the committee ■ Misunderstanding about the role of the committee ■ Inadequate guidance from committee secretary to the chair on its role 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance

Areas of difficulty	Possible causes	Possible improvement options
Political points of view interfere with the work of the audit committee	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee 	<ul style="list-style-type: none"> ■ Seek feedback from those interacting with the committee or external assessment ■ Provide support for or training for the chair ■ Consider the inclusion or role of independent members
A breakdown in the relationship between committee members and the executive, PCC or chief constable or with senior management	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee ■ Differing perceptions on the value of the committee ■ Personality clashes 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance ■ A senior officer provides internal facilitation to support improved relationships ■ Seek an external assessment or facilitation ■ Change the chair or membership, if the constitution or opportunity arises

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

APPENDIX A

Sector and devolved government guidance

PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Establishment of audit committee	<ul style="list-style-type: none"> Required 	<ul style="list-style-type: none"> Required 	<ul style="list-style-type: none"> Required It is recommended that this should be a combined body for both PCC and chief constable 	<ul style="list-style-type: none"> No guidance
Composition of the audit committee	<ul style="list-style-type: none"> Committees must have at least one independent person as defined by guidance The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical The committee may not include an officer of the combined authority or a constituent council 	<ul style="list-style-type: none"> Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor 	<ul style="list-style-type: none"> Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable) 	<ul style="list-style-type: none"> No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specified functions of the audit committee	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Review and assess the authority's risk management, internal control and corporate governance arrangements</p> <p>c) Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions</p> <p>d) Make reports and recommendations to the combined authority</p>	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Make reports and recommendations in relation to the authority's financial affairs</p> <p>c) Review and assess the risk management, internal control and corporate governance arrangements of the authority</p> <p>d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements</p> <p>e) Oversee the authority's internal and external audit arrangements</p> <p>f) Review the financial statements prepared by the authority</p>	<p>Consider the internal and external audit reports of both the PCC and the chief constable</p> <p>Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices</p>	No guidance
Responsibilities of the audit committee in relation to external audit	<p>■ No guidance</p>	<p>■ Oversee external audit arrangements</p>	<p>■ Review external audit reports</p>	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specific guidance	<ul style="list-style-type: none"> ■ Cities and Local Government Devolution Act 2016 ■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016 	<ul style="list-style-type: none"> ■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011 	Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018)	N/A

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE

Accounts and Audit Regulations are statutory instruments issued by the UK or the devolved governments. The various regulations impose requirements on ‘relevant bodies’, eg a local authority, a fire and rescue authority or police body, in relation to governance, internal control, financial reporting and internal audit.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where it is the audit committee of a relevant body that undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

The following is a summary for each sector and/or region of the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic update by the appropriate government body and audit committee members should be made aware of any changes by their organisation.

Local authorities in England (including combined authorities and fire and rescue authorities)

Relevant government guidance	Accounts and Audit (England) Regulations 2015
Governance and risk management arrangements	Regulation 3 requires that: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Local authorities in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018
Governance and risk management arrangements	Regulation 5 requires the following: <i>5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—</i> <i>a) arrangements for the management of risk, and</i> <i>b) adequate and effective financial management</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices
Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government Measure (Wales) 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Local authorities in Scotland

Relevant government guidance	Local Authority Accounts (Scotland) Regulations 2014
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk</i>
Financial affairs and financial statements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the financial management of the authority is adequate and effective</i> Regulation 6 relates to accounting records and control systems Regulations 8, 10 and 11 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the authority to: <i>conduct a review at least once in each financial year of the effectiveness of its system of internal control.</i>

Approval of annual governance statements	Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control
Internal audit	Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
Review of effectiveness of internal audit	Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices

Local authorities in Northern Ireland

Relevant government guidance	Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
Governance and risk management arrangements	Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems Regulations 7 and 8 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control
Approval of annual governance statements	Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the 2016 Framework
Internal audit	Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard

Police in England

Relevant government guidance	Accounts and Audit (England) Regulations 2015 – see also the statutory guidance Financial Management Code of Practice for the Police Forces of England and Wales (FMCP) (Home Office, 2013 – due to be updated in 2018)
Governance and risk management arrangements	Regulation 3 requires the following: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk.</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Police in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018 – see also the FMCP
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority’s functions; and</i> <i>(b) includes arrangements for the management of risk.</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices

Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Suggested terms of reference – local authorities and police

INTRODUCTION

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of purpose

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 4 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk-related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 11 To monitor the counter-fraud strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

- 13 To approve the internal audit charter.
- 14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 15 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

- 19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - b) regular reports on the results of the QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 20 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 21 To consider summaries of specific internal audit reports as requested.
- 22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 23 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).
- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 28 To consider specific reports as agreed with the external auditor.
- 29 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 30 To commission work from internal and external audit.
- 31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 34 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 36 To publish an annual report on the work of the committee.

SUGGESTED TERMS OF REFERENCE – POLICE

There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

Statement of purpose

- 1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.
- 3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.
- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.
- 11 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 12 Annually review the internal audit charter and resources.
- 13 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 16 To consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
- 17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the [Accounts and Audit Regulations \(Wales\) 2014](#) (see Appendix A).

- 19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

External audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.
- 21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 23 Consider specific reports as agreed with the external auditor.
- 24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.
- 26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

Accountability arrangements

The committee will do the following:

- 27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 28 Report to the PCC and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.
- 30 Publish an annual report on the work of the committee.

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> ■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority 	<ul style="list-style-type: none"> ■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions (Chapters 3 and 6)	<ul style="list-style-type: none"> ■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee 	<ul style="list-style-type: none"> ■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS ■ Knowledge of the local code of governance 	<ul style="list-style-type: none"> ■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit (Chapter 4)	<ul style="list-style-type: none"> ■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled 	<ul style="list-style-type: none"> ■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting (Chapter 4)	<ul style="list-style-type: none"> ■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) 	<ul style="list-style-type: none"> ■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken 	<ul style="list-style-type: none"> ■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<ul style="list-style-type: none"> ■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee 	<ul style="list-style-type: none"> ■ In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud (Chapter 4)	<ul style="list-style-type: none"> ■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation's arrangements for tackling fraud 	<ul style="list-style-type: none"> ■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment
Values of good governance (Chapter 5)	<ul style="list-style-type: none"> ■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority 	<ul style="list-style-type: none"> ■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
<p>Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)</p>	<ul style="list-style-type: none"> ■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation’s treasury management strategy – the organisation’s policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017) 	<ul style="list-style-type: none"> ■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	<ul style="list-style-type: none"> Professional qualification in accountancy 	<ul style="list-style-type: none"> More able to engage with the review of the accounts and financial management issues coming before the committee Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues More able to engage with the external auditors and understand the results of audit work
Internal audit	<ul style="list-style-type: none"> Professional qualification in internal audit 	<ul style="list-style-type: none"> This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	<ul style="list-style-type: none"> Risk management qualification Practical experience of applying risk management Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	<ul style="list-style-type: none"> Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law 	<ul style="list-style-type: none"> Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> Direct experience of managing or working in a service area similar to that operated by the authority Previous scrutiny committee experience 	<ul style="list-style-type: none"> Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	<ul style="list-style-type: none"> Project management qualifications or practical knowledge of project management principles 	<ul style="list-style-type: none"> Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	<ul style="list-style-type: none"> Knowledge gained from management or development work in IT 	<ul style="list-style-type: none"> Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	<ul style="list-style-type: none"> Able to focus on material issues and overall position, rather than being side tracked by detail 	<ul style="list-style-type: none"> When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail
Questioning and constructive challenge	<ul style="list-style-type: none"> Able to frame questions that draw out relevant facts and explanations Challenging performance and seeking explanations while avoiding hostility or grandstanding 	<ul style="list-style-type: none"> The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	<ul style="list-style-type: none"> Ensuring there is a clear plan of action and allocation of responsibility 	<ul style="list-style-type: none"> The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	<ul style="list-style-type: none"> Able to understand the practical implications of recommendations to understand how they might work in practice 	<ul style="list-style-type: none"> The audit committee should seek assurances that planned actions are practical and realistic

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> ■ Support the use of plain English in communications, avoiding jargon, acronyms, etc 	<ul style="list-style-type: none"> ■ The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	<ul style="list-style-type: none"> ■ Evaluate information on the basis of evidence presented and avoiding bias or subjectivity 	<ul style="list-style-type: none"> ■ The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views
Meeting management skills	<ul style="list-style-type: none"> ■ Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting 	<ul style="list-style-type: none"> ■ These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA’s Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA’s Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee’s terms of reference explicitly address all the core areas identified in CIPFA’s Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> ■ counter fraud and corruption 			
	<ul style="list-style-type: none"> ■ supporting the ethical framework 			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

Membership and support

12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) 			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

Evaluating the effectiveness of the audit committee

Assessment key

5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
---	---	---	---

Promoting the principles of good governance and their application to decision making	<ul style="list-style-type: none"> ■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships 		
--	---	--	--

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Contributing to the development of an effective control environment	<ul style="list-style-type: none"> ■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers 		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> ■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> ■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit 		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> ■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<ul style="list-style-type: none"> ■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements 		
Supporting the development of robust arrangements for ensuring value for money	<ul style="list-style-type: none"> ■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS 		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<ul style="list-style-type: none"> ■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for both staff and governors 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability	<ul style="list-style-type: none"> ■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee 		