

Audit Committee

Agenda

Monday, 22 January 2024 at 6.30 p.m.
Committee Room - Tower Hamlets Town Hall,
160 Whitechapel Road, London E1 1BJ

Members:

Chair: Councillor Harun Miah

Vice Chair: Councillor Ahmodur Khan

Councillor Kabir Ahmed, Councillor Saied Ahmed, Councillor Abdul Wahid, Councillor Maisha Begum, Councillor Rachel Blake, Councillor Mufeedah Bustin and Councillor Asma Islam

Independent Member:

Charlotte Webster

Substitutes: Councillor Shafi Ahmed, Councillor Suluk Ahmed, Councillor Abu Chowdhury, Councillor Mohammad Chowdhury, Councillor Ayas Miah and Councillor Abdal Ullah

[The quorum for the Audit Committee is 3 voting Members]

Contact for further enquiries:

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<http://www.towerhamlets.gov.uk/committee>



Public Information

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A Guide to Audit Committee

The Audit Committee is responsible for considering the Council's arrangements for internal control, governance and financial management and recommending any actions accordingly.

This includes:

- Audit Plans.
- Reports from external audit (such as the Annual Audit Letter and Governance Report).
- The Annual Governance Statement.
- Anti-fraud and corruption initiatives.
- Authority's Risk Management Arrangements.
- The administration of the Council's financial affairs.
- Approving the Authority's Statement of Accounts.

Public Engagement

Meetings of the committee are open to the public to attend, and a timetable for meeting dates and deadlines can be found on the council's website.

London Borough of Tower Hamlets



Audit Committee

Monday, 22 January 2024

6.30 p.m.

APOLOGIES FOR ABSENCE

1. DECLARATIONS OF INTEREST (PAGES 7 - 8)

Members are reminded to consider the categories of interest, identified in the Code of Conduct for Members to determine: whether they have an interest in any agenda item and any action they should take. For further details, see the attached note from the Monitoring Officer.

Members are also reminded to declare the nature of the interest at the earliest opportunity and the agenda item it relates to. Please note that ultimately it is the Members' responsibility to identify any interests and also update their register of interest form as required by the Code.

If in doubt as to the nature of an interest, you are advised to seek advice prior the meeting by contacting the Monitoring Officer or Democratic Services.

2. MINUTES OF THE PREVIOUS MEETING(S) (PAGES 9 - 20)

To confirm the minutes of the Audit Committee held on 23rd November 2023.

3. DELOITTE ITEMS FOR CONSIDERATION

There are no Deloitte items for consideration.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Internal Audit and Anti-Fraud - Progress Report (Pages 21 - 36)

4.2 Risk Management – Corporate and Directorate Risk Registers

To follow.



4 .3 Review of CIPFA Guidance on the management of Audit Committees (Pages 37 - 130)

4 .4 Treasury Management Report and Mid-Year Review

To follow.

4 .5 Treasury Management Strategy Statement, Investment Strategy and Capital Strategy Report for 2023-24

To follow.

4 .6 Audit Committee Training Plan

To follow.

5. AUDIT COMMITTEE WORK PLAN

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Next Meeting of the Audit Committee

Extraordinary

Thursday, 21st March 2024 at 5:30 p.m. to be held in Council Chamber – Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ.

Ordinary

Thursday, 18 April 2024 at 6.30 p.m. to be held in Committee Room - Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ.



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Agenda Item 1

DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

(i) Disclosable Pecuniary Interests (DPI)

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii) Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

DPI Dispensations and Sensitive Interests. In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

(iii) Declarations of Interests not included in the Register of Members' Interest.

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

Guidance on Predetermination and Bias

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting

In such circumstances the member may not vote on any reports and motions with respect to the matter.

Further Advice contact: Janet Fasan, Director of Legal and Monitoring Officer, Tel: 0207 364 4800.

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 6.33 P.M. ON THURSDAY, 23 NOVEMBER 2023

COMMITTEE ROOM - TOWER HAMLETS TOWN HALL, 160 WHITECHAPEL ROAD, LONDON E1 1BJ

Members Present in Person:

Councillor Harun Miah	
Councillor Ahmodur Khan	
Councillor Kabir Ahmed	(Cabinet Member for Regeneration, Inclusive Development and Housebuilding)
Councillor Saied Ahmed	(Cabinet Member for Resources and the Cost of Living)
Councillor Abdul Wahid	(Cabinet Member for Jobs, Skills and Growth)
Councillor Rachel Blake	
Councillor Mufeedah Bustin	
Councillor Asma Islam	
Charlotte Webster	Independent Person

Officers Present in Person:

Miriam Adams	Interim Head of Pensions and Treasury
David Dobbs	(Head of Internal Audit, Anti-Fraud and Risk)
Janet Fasan	(Director of Legal & Monitoring Officer)
Tim Harlock	Interim Chief Accountant
Ahsan Khan	(Chief Accountant)
Julie Lorraine	(Corporate Director Resources)
Jonathan Melnick	(Principal Lawyer-Enforcement)
Jill Bayley	(Head of Legal Safeguarding)
Farhana Zia	(Democratic Services Officer, Committees, Governance)

Officers In Attendance Virtually:

Susannah Beasley-Murray	(Divisional Director of Supporting Families)
Pat Chen	(Head of HR)
Lisa Fraser	(Director of Education)
John Harrison	Interim Director of Finance, Procurement and Audit
Ellie Kershaw	(Acting Director, Growth and Economic Development)
Denise Radley	(Corporate Director, Health and Social Care)
Richard Ward	(Interim Head of Contracts and Procurement)

Apologies for absence

There were no apologies for absence.

1. DECLARATIONS OF INTEREST

There were no declarations of pecuniary interest declared by members of the committee.

2. MINUTES OF THE PREVIOUS MEETING(S)

The Audit Committee **RESOLVED**:

1. That the unrestricted minutes of the Audit Committee held on the 20th July 2023 and the extraordinary meeting held on the 19th October 2023 be approved and signed by the Chair as a correct record of the proceedings.

2.1 Consideration of 2018/19 and 2019/20 Management Representations

Ms Julie Lorraine, Corporate Director for Resources and Section 151 Officer, introduced the report before handing over to Mr Tim Harlock, Interim Head of Strategic Finance - Chief Accountant, who explained the report in detail. He said the Council was required to send a letter of management representations, for each year of the accounts, to the external auditors Deloitte. He said the purpose of the letter was to acknowledge, formally, that the Council had informed them of everything that it should have done and had fulfilled its professional responsibilities.

Mr Harlock referred members to the matters considered, appended at A and B, and said the additions made were highlighted in bold. Members of the Committee were asked to approve these management representations.

Ms Lorraine added that a detailed action plan setting out the progress in addressing control weaknesses would be brought back to the next committee meeting.

In response to comments and questions from members the following was noted:

- Members of the Committee had no questions for Mr Harlock.

The Audit Committee **RESOLVED** to:

1. Review the process by which assurance has been sought regarding the representations to be made and make enquiry of officers as appropriate.
2. Approve the letters of management representations (which may yet be subject to minor alterations).

2.2 Statement of Accounts for 2018/19 and 2019/20

Mr Tim Harlock, Interim Head of Strategic Finance - Chief Accountant said that the statement of accounts for 2018/19 and 2019/20 were being presented as a fair and true view of the financial position of the Council, expect for those matters decided in the Statement of Responsibilities certification presented within those accounts. He said relatively few changes had been made to the accounts since the last time they were presented. The accounts would be receiving several qualifications as they were not a perfect set of accounts. He said they had worked through the errors but had to draw a line at what was reasonable; the accounts presented were good enough.

In response to comments and questions from members the following was noted:

- Councillor Bustin acknowledged the hard work of the finance team and said it was good the accounts for these years had reached this final stage. She said that the longer the accounts remained open, more issues such as RAAC, meant back years of accounts needed to be re-examined. She welcomed the closure of the accounts.
- In response to what controls were in place to ensure organisational memory, Ms Lorraine said they had improved controls, but what was yet to be tested was whether controls had been improved to the required standard. She said for the past years of 2018/19 and 2019/20, the accounts presented were good enough. However, learning from the qualifications and the Finance Improvement Plan which her predecessors had introduced, had resulted in processes being tightened, with written procedures and training. She said they were looking at resources within the finance team and hoped to recruit permanent professionals rather than have interim appointments.
- Ms Webster, Independent Person welcomed the shift away from interim appointments. She asked if there was a roadmap to achieving this? Ms Lorraine said she would report back to every Audit Committee meeting the progress made.

The Audit Committee **RESOLVED** to:

1. To approve these Statements of Accounts.
2. To approve the refreshed Annual Governance Statements for 2018/19 and 2019/20, which have been inserted within the respective Statements of Accounts; these statements have been updated to ensure they are still appropriate to reflect the circumstances as at the date that the Statements of Accounts are approved.

3. DELOITTE ITEMS FOR CONSIDERATION

3.1 Deloitte 2018/19 and 2019/20 update

Mr Jonathan Gooding, external auditor from Deloitte presented their second update to the final report to the Audit Committee in relation to audit years ending 31st March 2019 and 31st March 2020. Mr Gooding referred to the report appended to Supplemental Agenda 2, pages 3-32 and said the pension

liability issue was a concern. They did not concur with the Council appointed Actuary's calculations used regarding membership data and as such, this and other minor errors have led them to conclude to qualify the accounts. Mr Gooding drew attention to property valuations and said the method used to value property had changed significantly however the net impact was immaterial.

In response to comments and questions from members the following was noted:

- Ms Lorraine assured members that lessons learnt from the earlier audits of accounts were being applied to more recent accounts as a process of continuous improvement. She said a specialist analyst with experience of LGPS had been employed to understand the nature of the errors and understand the processes to put this right. She said that they were also looking to recruit permanent staff and support the Pensions function.
- In respect of what other control measures were required, Ms Lorraine said officers were responsible for ensuring control measures were in place. What was required now was a clear plan of satisfactory and comprehensive implementation of controls, and documentation to support this, as well as scrutiny from external auditors.
- Ms Adams, Interim Head of Pensions and Treasury informed members that when she took charge of the pensions function, it was in bad shape. However, she had worked with both the Pensions Board and Committee as well as the Pensions Regulator to rectify this. Ms Adams said the situation had improved from zero reconciliations being undertaken, to 17 reconciliations undertaken at present. She said the Pensions function had a specific risk register that it reported to the Board and Committee on a quarterly basis. She said her team would work to expedite the findings of the external auditor however it should be borne in mind that these were historic records.
- Ms Lorraine said she was confident that the 2020/21 accounts had vastly improved however there is always a risk the external auditors may not agree. She said she was of the view that the Council ought to produce and publish their Annual Governance Statements for prior years and this had now been done. She said the draft accounts would be made available to the public.

The Audit Committee **RESOLVED** to:

1. Note the contents of the report from Deloitte's.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Timetable for the accounts for 2020/21-2022/23

Mr Tim Harlock, Interim Head of Strategic Finance - Chief Accountant introduced the report stating the Council had experienced great difficulty in recent years in completing the proper processes with regards to its financial

accounts resulting in a backlog of historical accounts that needed to be completed. Mr Harlock said the Council was of the view that this timetable presented should allow the Council to get up-to-date and produce a current statement of accounts, which would be in the wider public interest. He said the 2018/19 and 2019/20 accounts had been approved and the attached timetable set out how the accounts for 2020/21 to 2022/23 would be progressed.

In answer to comments and questions from members the following was noted:

- Councillor Bustin welcomed the transparency in relation to the accounts and asked what assurance could be given that the more recent set of accounts would not be qualified due to the pension's liability identified by the external auditors. In response Ms Lorraine stated that whilst there was no guarantee that the accounts would be unqualified, the finance team was learning lessons from past accounts and actively applying the learning; as stated before, what was required now was a comprehensive plan of how to address all control shortcomings (and that would be coming to Audit Committee on a regular basis from now on). Ms Adams added that work was underway with the Council's Actuary in how the triennial valuation is undertaken.

The Audit Committee **RESOLVED** to:

1. Note the Council's anticipated action plan.

4.2 Control Observations for 2019-20 and progress in addressing these

Mr Tim Harlock Interim Head of Strategic Finance - Chief Accountant said officers had considered the control observations made by Deloitte in their report on the 2019/20 accounts, which had been presented to the Committee at its meeting of 26th January 2023.

He referred members to paragraph 3.5 onwards which set out the Councils response to the recommendations made by Deloitte's. Ms Lorraine added that the Committee would be presented with an update on the control observations, with a full schedule outlining the progress made.

In response to comments and questions from members the following was noted:

- Ms Charlotte Webster, Independent Person asked if the Committee could be presented with the methodology to be used to implement the recommendations and how these would be reported back to the committee. Ms Lorraine said this was their intent and they'd be providing an update at the next meeting of the Audit Committee.
- Councillor Kabir Ahmed, added huge progress had been made with the accounts and that the Council's had taken steps to appoint permanent officers, including the appointment of the current Corporate Director for

Resources and section 151 Officer. He said this and the check and balances in place should result in better quality accounts in the future.

The Audit Committee **RESOLVED** to:

1. Note the Council's progress to date.

4.3 Annual Whistleblowing Report and Policy Review

Mr David Dobbs, Head of Internal Audit, Anti-Fraud and Risk stated the report was the Annual report on the Council's whistleblowing arrangements and a review of the whistleblowing policy. He said minor changes had been made to the policy in conjunction with the Monitoring Officer. Mr Dobbs referred members to paragraph 3.2 of the report which set out the recent data on whistleblowing. He said of the number of referrals fewer than 25% were genuine whistleblowing cases.

In response to comments and questions from members the following was noted:

- Councillor Islam said information on whistleblowing needed to be more visible on the Council's intranet, so staff could report and make referrals. Mr Dobbs said they had publicised the Whistleblowing policy and procedure via the staff newsletter and would ensure it had a more prominent presence on the Council intranet. He said the policy would be updated periodically.

The Audit Committee **RESOLVED** to:

1. Consider and note the Annual Report.
2. Approve the updated Whistleblowing Policy referred to at Appendix 1.

4.4 Annual Review of the Anti-Money Laundering Policy and Guidance

Mr David Dobbs, Head of Internal Audit, Anti-Fraud and Risk stated the Council must review and report its compliance with the Anti-money Laundering Policy and Guidance (AML Policy) to ensure that its robust and vigilant with anti-money laundering culture. Mr Dobbs said paragraph 3.3 set out the changes made to the policy since it was last reviewed. He said there were not many cases of Anti-Money Laundering cases.

In response to comments and questions from members the following was noted:

- Mr Dobbs stated he did not expect a huge number of cases and when benchmarked with other local authorities, AML cases were fewer than 1 a year, however it was important to shine a spotlight on this matter and be vigilant.

The Audit Committee **RESOLVED** to:

1. Note and approve the Council's updated Anti-Money Laundering policy.

4.5 Internal Audit and Anti-Fraud - Progress Report

Mr David Dobbs, Head of Internal Audit, Anti-Fraud and Risk stated the report updated members on the progress made against the delivery of the 2023-24 Annual Internal Audit Plan and an update on investigations activity, fraud prevention and anti-fraud work. Mr Dobbs said the report also highlighted any significant issues and concerns since the last update to the Audit Committee in July 2023. Members of the Committee heard from Officers, who had received 'limited assurance' reports.

In response to comments and questions from members the following was noted:

- The Internal Audit team had two vacancies for auditors. One position had been recruited to, with an apprentice filling the role and the other was appointed to subject to pre-employment checks.
- In reference to pages 95-96, Councillor Kabir Ahmed stated the Directorates had changed. Mr Dobbs said the report was looking back to a time before the changes to the corporate structure had been made.
- Referring to the limited assurance report on the management of DBS checks, Ms Webster said it was alarming checks had not been undertaken, especially when it involved social workers working with youngsters and children. Ms Pat Chen, Head of Human Resources, Workforce, OD and Business Support stated that whilst this was regrettable, controls had been put in place that staff requiring a DBS check are annually reviewed. She said they were looking to purchase software to automate and manage the process better, with the onus being on the individual to renew their DBS check.
- In reference to the limited assurance report on 'Cost-of-Living Payments' Councillor Bustin asked what assurances could be given, that fraud did not occur, and the monies went to the people who needed it most. In response Ms Ellie Kershaw, Director for Integrated Growth and Development said they had learnt lessons from the exercise last year and had through the recommendations made by internal audit reviewed how they would be processing payments in future.

The Audit Committee **RESOLVED** to:

1. Note the contents of the report and the overall progress made and the assurance opinions for the audits carried out as part of the 2023-24 Audit Plan.

4.6 Risk Management – Corporate and Directorate Risk Registers

Mr David Dobbs, Head of Internal Audit, Anti-Fraud and Risk said the Corporate Risk register and the Children's Services Risk Register was attached to the report for review. He said this was a quarterly report to the Committee. Mr Dobbs referred members to paragraph 3.3 which listed the new risks added to the register and the risks which had been withdrawn. He said Pension Administration and Pre-DBS Check would be added to the register.

In response to comments and questions from members the following was noted:

- Referring to risk PLC0023, Building Safety Act on page 132 of the agenda, Councillor Kabir Ahmed asked if the ALMO or the Council were responsible for this. Ms Lorraine, Corporate Director for Resources and Section 151 Officer, stated the risk and accountability sat with the Council. She said Corporate Directors needed to own the risk and work to mitigate the risk.
- Referring to risk CLSCCR00, Health and Safety on page 118 of the agenda, Councillor Bustin asked what steps had been taken to ensure health and safety procedures were being implemented in Tower Hamlets. Ms Lorraine stated health and safety was a concern for the Council and this risk had been added to the register following a conversation with the Chief Executive.
- Referring to the Children Services Risk Register and the Ofsted Inspection – Risk CSD0024, page 142, Ms Lisa Fraser Director of Education, said the inspection was imminent however they did not know the precise date. She said they were inspection ready in any event.

The Audit Committee **RESOLVED** to:

1. Note the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of those risks including impact on the corporate objectives at the next Audit Committee meeting (or separately before the meeting, if urgent).
2. Note the Children's Services Directorate risks and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risks including impact on the directorate's objectives at the next Audit Committee meeting (or separately before the meeting if urgent).

4.7 Treasury Management Outturn Report for 2022-23

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the Treasury Management Outturn Report for 2022-23. She said the report covered the period of 1st April 2022 to 31st March 2023. She said Investment returns fluctuated with the Bank of England base rate. The base rate at 31st March 2023 was 4.25% which the current base rate was 5.25%.

Ms Adams referred members to paragraph 3.6 onwards which outlined the economic outlook and the treasury management strategy at paragraph 3.13. Ms Adams referred to tables 1B, 2,3,4 ,5 & 5b, which provided information on the external borrowing position as well as investments and performance position.

In response to comments and questions from members the following was noted:

- Councillor Bustin asked Ms Adams to sum up the Treasury management position and asked what the council's position was in accessing cash. Ms Adams said overall the position was good and referred members to table 2 on page 38 of the supplemental agenda 2. She said liquidity was reviewed daily and whilst internal borrowing was low, eventually the Council would need to borrow in the future.

The Audit Committee **RESOLVED** to:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31 March 2023.
2. Note the Council's investments as set out in Appendix 1. The balance as at 31 March 2023 was £237,950m.

4.8 Review of CIPFA Guidance on the management of Audit Committees

Ms Janet Fasan, Director of Legal and Monitoring Officer presented the report and said it invited Audit Committee members to review the composition and operation of the Audit Committee to reflect the updated Guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2022. Ms Fasan said the document provided guidance on several areas and wanted to know how the Audit Committee wanted to proceed. She referred members to paragraph 3.4 onwards which set out the key points as well as paragraph 3.23 on the appointment of an independent chair.

In response to comments and questions from members the following was noted:

- Councillor Islam stated that she did not think Cabinet/executive members should make-up the membership of the Audit Committee. She said there should be a separation which would be good for governance and transparency. Councillor Bustin and Mr Jonathan Gooding, external auditor from Deloitte concurred with this view.
- Councillor Kabir Ahmed asked if there were timelines involved to decide on this matter and enquired if the Constitution working group were required to consider the matter. Ms Fasan stated that it would be advisable for the Audit Committee to consider its composition as it was a constituted committee of Council.

- **ACTION:** Members agreed that an options paper be presented to the Audit Committee at its next meeting, outlining the possible makeup of the Audit Committee.

The Audit Committee **RESOLVED** to:

1. Defer their decision in relation to the CIPFA guidelines and the composition of the Audit Committee and requested an options paper be presented to them at their next meeting for further discussion and consideration.

5. **AUDIT COMMITTEE WORK PLAN**

Mr David Dobbs, Head of Internal Audit, Anti-Fraud and Risk asked members to note the work plan for the Audit Committee and asked how they'd like future training to be delivered. Mr Dobbs reminded members that at the last meeting of the Audit Committee in July 2023, members had asked for the training scheduled to be reviewed with a possibility of two sessions per year, rather than a rolling programme of training before each audit committee meeting.

In response to comments and questions from members the following was noted:

- Members concurred that training before each audit committee meeting was too onerous and a better balance was required.
- **ACTION:** Councillor Ahmed requested an options paper be presented with key areas of training outlined therein. Mr Dobbs said he would explore this, with the possibility of using external trainers to deliver some of the training. He said he would present the options paper at the next meeting of the Audit Committee.

The Audit Committee **RESOLVED** to:

1. Note the work plan and discussion on future delivery of training to committee members.

6. **ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

6.1 **RIPA Policy 2023**

Mr Jonathan Melnick, Principal Lawyer – Enforcement introduced the report and said the report detailed the proposed amendments to the Regulatory Investigatory Powers Act 2000 (RIPA) Policies for directed surveillance, the use of cover human intelligence sources which accompany the Council's Enforcement Policy. He said the policy also proposed that a RIPA social media policy be introduced.

In response to comments and questions from members the following was noted:

- Mr Melnick said very few cases were dealt under the RIPA legislation. He said the local authorities' power to act had dwindled over the last decade. However, the Council was obliged to review and update the policy annually.

The Audit Committee **RESOLVED** to:

1. Note the proposed amendments to the RIPA policy and the introduction of the Social Media policies appended at 1 and 2.

6.2 Report of Investigations under the Regulation of Investigatory Powers Act (RIPA)

Mr Jonathan Melnick, Principal Lawyer – Enforcement said under the RIPA policy, the Council was required to report on its use of CHIS – Cover Human Intelligence sources. He referred members to paragraph 3.12 of the report which outlined the use of the power since 2017. He stated the use of CHIS had been negligible, with partnership working and use of police powers instead to tackle issues since 2014/15.

In response to comments and questions from members the following was noted:

- Members had no questions for Mr Melnick.

The Audit Committee **RESOLVED** to:

1. Note the information provided in the report.

The meeting ended at 8.57 p.m.

Chair, Councillor Harun Miah
Audit Committee

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Non-Executive Report of the: Audit Committee Monday, 22 nd January 2024	 TOWER HAMLETS
Report of: Julie Lorraine - Corporate Director, Resources	Classification: Open (Unrestricted)
Internal Audit and Anti-Fraud - Progress Report against the 2023-24 Audit Plan	

Originating Officer(s)	David Dobbs – Head of Internal Audit, Anti-Fraud & Risk
Wards affected	(All Wards)

Executive Summary

This report provides an update on progress against the delivery of the 2023-24 Annual Internal Audit Plan, and an update on investigations activity, fraud prevention and anti-fraud work. The report also highlights any significant issues and concerns since the last update to the Audit Committee in November 2023.

Recommendations:

The Audit Committee is recommended to:

1. Note the contents of the attached report and the overall progress and assurance opinions for audits carried out as part of the 2023-24 Audit Plan.

1. REASONS FOR THE DECISIONS

- 1.1. The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has 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.
- 1.2. The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

2. **ALTERNATIVE OPTIONS**

2.1. None.

3. **DETAILS OF THE REPORT**

3.1 The attached report (refer Appendix A) details progress against the 2023-24 Internal Audit Plan, which was agreed by the Audit Committee at its May 2023 meeting. The report also includes details of the significant findings and concerns from the internal audits that have been completed during this period that resulted in Limited or No Assurance audit opinions. For this period, this applies only to the internal audit of Homelessness Assessments, which received a Limited Assurance opinion.

3.2 As indicated in the report, in the year to date, 43% of audit opinions have resulted in Reasonable or Substantial Assurance (65%: 2022-23). However, caution should be adopted before any firm conclusions are drawn from this data, as it is an interim position. The outturn figure, which will be reported in June/July, will be calculated from a significantly larger body of audit work, and is expected to vary from the position reported above.

3.3 At the start of the year Internal Audit noted that there is '*... a backdrop of significant organisational transformation and change, coupled with the need to identify £37m of savings from 2024/25. Maintaining a robust system of internal control and risk governance will help to navigate these challenges, though some instability should be expected, which may in turn impact the outcomes of Internal Audit's work for 2023-24.*'

3.4 To add further context, it should be further noted that a key focus during this period has been identifying the significant savings required to deliver a balanced financial position across the three-year Medium-Term Financial Strategy (MTFS). This has been achieved and reported in the draft budget for 2024-25 and the MTFS for 2024-27.

3.5 In also recognising the need to improve and strengthen internal control processes, management is also reviewing key governance processes to ensure that are fit for purpose, this will include:

- Setting out and implementing a Control and Assurance Framework, based on CIPFA guidance, to strengthen management accountability throughout the Council
- Review and update the Council's Financial Regulations and related Financial Administration procedures
- As part of Internal Audit planning for 2024-25, to ensure that planned work is properly aligned to key risks/exposures and can be promptly flexed to meet emerging risks.

4. EQUALITIES IMPLICATIONS

4.1 There are no equalities implications.

5. OTHER STATUTORY IMPLICATIONS

5.1 There are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the compliance requirements set out the Accounts and Audit Regulations 2015 there are no specific financial implications arising from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 Regulation 3 of the Accounts and Audit Regulations 2015 requires local authorities to have 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.

7.2 This report demonstrates the Council's compliance with these duties and with the duties set out in Section 151 of the Local Government Act 1972. This section requires every local authority to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs.

7.3 The matters set out in this report comply with the above legislation.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A: Internal Audit and Anti-Fraud Progress report

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- None.

Officer contact details for documents:

David Dobbs, Head of Internal Audit, Anti-Fraud and Risk

Email: david.dobbs@towerhamlets.gov.uk

Internal Audit and Anti-Fraud Progress Report 2023-24

1. Background

Introduction

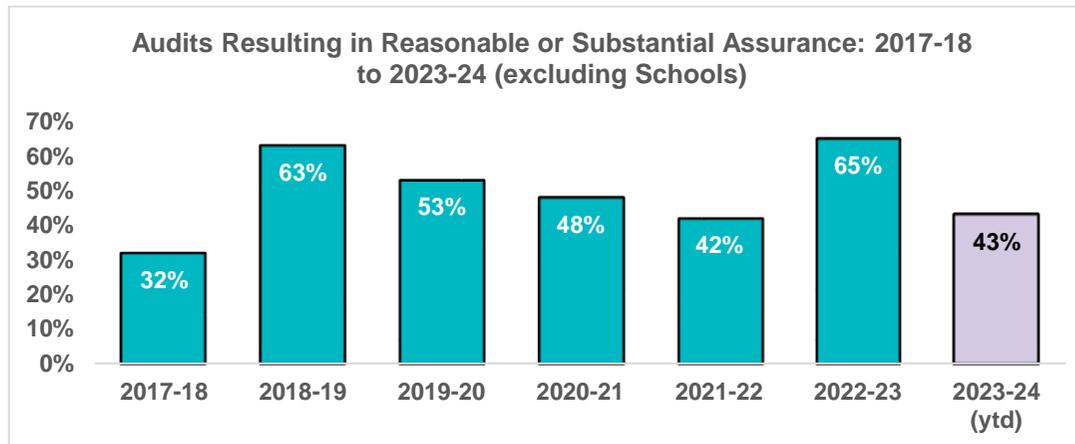
- 1.1 This report provides a progress update of the work that Internal Audit has carried out in accordance with its annual plan for 2023-24 which was approved by the Audit Committee at its May 2023 meeting.
- 1.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements of the Global Institute of Internal Auditors' (IIA Global) International Professional Practices Framework (IPPF). They also include additional requirements and interpretations for the UK public sector.

2. Progress Update

2023-24 Deliverables

- 2.1 **Appendix A** contains the Council's main audit plan together with the THH Audit Plan which now becomes part of Housing and Regeneration Directorate with details of progress, namely that in the nine-month period to the end of December:
- 1 Substantial Assurance opinion has been issued
 - 8 Reasonable Assurance opinions have been issued
 - 12 Limited Assurance opinions have been issued
 - 0 No Assurance opinions have been issued
 - 6 Advisory audits have been undertaken

- 2.2 The diagram below indicates the trend for assurance opinions, including year-to-date data. This metric will be recalculated and reported in Internal Audit's Annual Report.



- 2.3 **Appendix B** details the Schools audit plan (carried out by the co-source partner, BDO)
- 1 Substantial Assurance opinion has been issued.
 - 7 Reasonable Assurance opinions have been issued
 - 1 Limited Assurance has been issued
 - A further five schools audits are currently in progress.
- 2.4 A summary of findings in relation to the one Limited Assurance audit finalised during this period is included at **Appendix C**.
- 2.5 Overall progress in undertaking and completing the audit plan for 2023-24 has continued to be slower than expected. This is largely due to ongoing and persistent resourcing issues, but also some areas where management has not actively engaged in the audit process. During August, we were successful in recruiting to two Auditor posts that has been vacant for some months – one was filled through an internal promotion from within the audit team and the other appointee will start at the end of February. Additionally, a Senior Auditor exited the Council during September. Currently therefore, there are 2 vacancies and recruitment activity will be re-started in January.

Appendix A: Details audit results

Audit Title		Directorate	Priority	Opinion	Status
1	Equality Assessment	Corporate	1	Limited	Draft
2	Corporate Governance Improvement Plan – Follow Up	Corporate	1	Advisory	Draft
3	Management of Waivers to Financial Regulations	Corporate	1	Limited	Draft
4	Management and Control of Staff Gifts and Hospitality	Corporate	2	Reasonable	Final
5	Performance Management	Corporate	1		In Progress
6	Scheme of publication (Transparency Code)	Corporate	1	Limited	Draft
7	Risk Management	Corporate	1		
8	Management and Control of Market Supplements	Corporate	2		In Progress
9	Attendance Management	Corporate	1	Limited	Draft
10	Data Quality	Corporate	2		
11	Management & Monitoring of Disclosure & Barring Service Checks	Corporate	1	Limited	Final
12	Signing and Sealing of Documents (including Retention)	Chief Executive's	1	Limited	Final
13	Grants to Voluntary and Community Organisations	Chief Executive's	1	Reasonable	Final
14	Management of Transformation Programme and Projects	Chief Executive's	2		
15	Procurement of Legal Advice	Chief Executive's	2		Planning
16	Financial Systems - Council Tax	Resources	1	Reasonable	Final
17	Financial Systems - Creditors	Resources	1		In Progress
18	Financial Systems - Debtors	Resources	1		In Progress
19	Financial Systems - General Ledger	Resources	1		In Progress
20	Financial Systems - School Accounts End of Year Reconciliations	Resources	1		In Progress
21	Homeless – Arrears Management	Resources	1		In Progress
22	Pre-payment Cards	Resources	2		In Progress
23	Housing Benefit quality assurance systems	Resources	1	Advisory	Draft Report
24	Registrars Service	Resources	1	Substantial	Final
25	Procurement – Requisition for Quotation (RFQ) system	Resources	1	Limited	Draft
26	Business Support SLAs delivery and performance	Resources	2		
27	Free Schools Meals Eligibility	Resources	1		Deferred to 2024-25
28	Management of Members' Enquiries	Resources	2		In Progress
29	IR35 – Off Payroll Engagement	Resources	1		Deferred to 2024-25

Appendix A: Detailed audit results

30	Idea Stores – Regularity Audit	Resources	2		
31	Cloud strategy and virtual infrastructure (IT Audit)	Resources	1		In Progress
32	Cyber Security Controls over Supply Chain and Trusted Partners	Resources	1		
33	Software Licenses - Management and Control	Resources	1		
34	Management of Video Surveillance systems	Communities	1		Deferred to 2024-25
35	Recruitment and Vetting of Enforcement Officers	Communities	1	Advisory	Draft
36	Quality Assurance Board and Framework	Health and Adult Social Care	1		In Progress
37	Management and Monitoring of Fixed Penalty Notices	Communities	2		
38	Domiciliary Care - Procurement Advisory work	Health and Adult Social Care	1	Advisory	In progress
39	Telecare Service	Health and Adult Social Care	1		
40	Direct Payments	Health and Adult Social Care	1		In Progress
41	Contract Monitoring	Health and Adult Social Care	1		
42	Holiday Playschemes	Children's Services	1		
43	Supporting Stronger Families Grant Certification	Children's Services	1	Grant Audit	In Progress
44	SEND Improvement Plan	Children's Services	1		In Progress
45	King George Field's Trust – governance	Children's Services	2		
46	Education Maintenance Allowances and Bursary Payments	Children's Services	1	Reasonable	Final
47	Youth Service Insourcing – Advisory	Children's Services	1		
48	Commissioning of Sports Activities – Advisory	Children's Services	1	Advisory	Draft
49	Land Searches	Communities	1	Reasonable	Final
50	Passenger Transport Services	Communities	1		
51	Management and Monitoring of S106 Planning Obligations	Communities	1	Reasonable	Final
52	Property Disposals	Housing and Regeneration	1	Limited	Final
53	Planning and Building Control Fees and Charges	Housing and Regeneration	2		
54	Licensing	Communities	1		
55	Procurement and Management of Consultants for Capital Works	Housing and Regeneration	1		
56	THH Insourcing	Housing and Regeneration	1		
57	Post Contract Review – New Town Hall	Housing and Regeneration	2		
58	Management of Lettings of Community and Commercial Properties	Housing and Regeneration	1		Planning
59	Management of Markets – Follow Up	Communities	1		In Progress

Appendix A: Detailed audit results

60	Management of Grants	Communities	2		
61	Penalty Charge Notices – Appeals Procedure	Communities	1	Reasonable	Final
62	Waste Management – Operational Control	Communities	2		
63	Homelessness Assessments	Housing and Regeneration	1	Limited	Final
64	Management of Houses in Multiple Occupation (HMO)	Communities	1	Advisory	Draft
65	Management and Control of Cost-of-Living Payments	Housing and Regeneration	1	Limited	Final
66	Management and Control of Children’s Services Petty Cash Accounts	Children’s Services	1	Limited	Final
67	Eva Armsby Family Centre – Regularity Audit	Children’s Services	1	Limited	Final
68	Pensions Administration – Follow Up audit	Resources			In Progress
69	THH Financial Systems – Follow Up audit	Housing and Regeneration		Reasonable	Final
70	THH Company closure and Transfer to LBTH	Housing and Regeneration			Planning
71	Equality Assessments	Housing and Regeneration			
72	Housing Repairs	Housing and Regeneration			Planning
73	Contract Audit	Housing and Regeneration			Planning
74	Management of Overtime	Housing and Regeneration			Planning
75	Health and Safety at Work	Housing and Regeneration			
76	Horticulture Service	Housing and Regeneration			In Progress

Schools Audits		Opinion	Status
1	Columbia Primary School	Reasonable	Final
2	St Anne's and Guardian Angels	Reasonable	Final
3	Woolmore Primary School	Reasonable	Final
4	Cayley Primary School	Reasonable	Final
5	Wellington Primary School	Substantial	Final
6	Halley Primary School	Reasonable	Draft
7	Langdon Park School	Reasonable	Draft
8	Malmesbury Primary School	Limited	Draft
9	Thomas Buxton Primary School	Reasonable	Draft
10	Bonner - Bethnal Green both sites	-	In Progress
11	Phoenix Primary and Secondary Schools	-	In Progress
12	Stephen Hawking School	-	In Progress
13	Ben Jonson Primary School	-	In Progress
14	Olga Primary School	-	In Progress

Title	Date of Report	Comments / Findings	Scale of Service
Homelessness Assessments	Nov 2023	<p>The objective of this audit was to provide assurance around the adequacy and soundness of governance and control around management of homelessness assessments. The Homelessness Reduction Act 2017 places a legal duty on Tower Hamlets to offer more support to a wider range of people who are homeless or at the risk of losing their home. As part of this, the Council has a Duty to prevent homelessness, a Duty to relieve homelessness and the Main Housing Duty.</p> <p>During the audit we identified the following areas of good practice:</p> <ul style="list-style-type: none"> • The Assessment Team have drawn up operating procedures for use by staff • There is a Homeless and Rough Sleeping Strategy for the period 2018 – 2023 as well as an Equality Impact Assessment. • Letters to applicants advising them of the Council’s decision were found to include guidance on requesting a review of the decision. • The assessment form template includes a section which requires the case officer to confirm that they have informed the applicant of the consequences and implications of giving false information. <p>Our findings and issues from this audit include the following:</p> <ul style="list-style-type: none"> • Policies and procedures The operating procedure manual was last reviewed in 2020. It covered most aspects of case management but did not include procedures regarding internal reviews or appeals, arranging and recording temporary accommodation bookings or recording documents on the CDP case management system. • IT Systems and Controls - We were advised that homelessness applications and decisions are recorded on CDP system by Assessment Officers, while related transactions such as temporary accommodation bookings were processed on Northgate Housing. Comino was also used as a case management system. We were further advised that the three systems are not integrated and overlap in some areas. Inevitably, this has a negative impact on data quality, which the Service recognises. Consequently, audit testing was performed on CDP and on the conclusion of our testing in February 2023 we provided the Homelessness Service with our working paper to enable them to check our conclusions and provide any further supporting documentation that may have been missed. However, we did not receive any feedback despite reminders. At the exit meeting in May 2023, we were informed that if information was missing on CDP, it would be on Comino. We were requested to supply our working paper again so that the Homeless Service could re-perform audit checks. Due to work pressure on the Team, we 	Extensive

Title	Date of Report	Comments / Findings	Scale of Service
		<p>agreed a 3-month period to complete. The outcome was that the Homelessness officer was able to locate more evidence on Comino. We noted that evidence had been uploaded to either the “tenancies” tab or the “applications tab”. The evidence, such as team leader approval for a temporary accommodation booking was scattered across two IT applications and approvals were recorded inconsistently in various formats, such as emails, a note referring to a panel, a signed booking form stored on Comino, or a manager authorisation workflow on CDP. There appeared to be no standardisation of the approval process. An absence of standardisation and inconsistent filing on 2 different systems can be a key control weakness, as the audit trail is lost. Consequently, management oversight and quality assurance can be more time consuming.</p> <ul style="list-style-type: none"> • Assessments: Audit testing of a sample of 20 cases, showed that while supporting documentation to demonstrate applicants’ eligibility, homelessness and priority need could be located in most cases, it appeared that these documents were not filed in a standardised manner and inconsistently either on CDP or on Comino and in some instances with significant delay. • Quality assurance: There was no evidence of quality assurance, management review and spot checking. The absence of quality assurance can increase the risk of homelessness applications and case work not being processed promptly, accurately, completely. There is also risk that management may not promptly identify and rectify if key information/documents are not filed promptly in the correct file/system. • Temporary accommodation booking and recording: We found that team principal approval for temporary accommodation could be located in 18 of 20 cases. However, as mentioned earlier, approvals for bookings of Temporary Accommodation were filed inconsistently either on CDP or on Comino, in different ways and in a delayed manner. It is understood that temporary accommodation placements need to be recorded on the case management system CDP, but they are also recorded on Northgate when the operations team book the accommodation. However, audit testing showed that placements had been recorded on CDP in 14 of 19 relevant cases. Cross-referencing with other information/documents (such as lease agreements) held on the system, Audit identified that only 8 of 14 relevant placement records were accurate. It also showed that only 1 of 12 relevant placement records on CDP agrees with the placement record held on Northgate. This calls the quality and reliability of the data on both systems into question. 	

Title	Date of Report	Comments / Findings	Scale of Service
		<ul style="list-style-type: none"> • Notification of decisions: Testing of a sample of 20 cases where applicants had been placed in temporary accommodation showed that a notification of relief letter was on file in 15 of 20 relevant cases. Notification of end of relief letter was on file in 7 of 14 relevant cases. • Reviews and appeals: Internal reviews are logged on spreadsheets maintained by the two case officers. Supporting documentation is recorded on Comino. It is not clear why CDP is not used for managing internal reviews. Audit testing of a sample of 10 internal reviews showed that <ul style="list-style-type: none"> ➤ 6 of 10 review requests had been uploaded onto Comino ➤ 5 of 10 acknowledgements of the request had been uploaded onto Comino ➤ In 4 of 5 relevant cases the outcome letter had not been uploaded onto Comino ➤ 6 of 7 reviews had not been completed within the deadline (this includes reviews still ongoing, but which exceeded the deadline date). • Performance management: The performance indicators currently being measured are largely output based and are not linked to the outcome-based performance objectives set out in the Homelessness Strategy. There are no performance data for the Statutory and Advocacy team, which is the team that conducts internal reviews, following requests from applicants, as well as appeals brought to the county court or high court. It is not known how many live internal reviews there are, the percentage of reviews dealt with within the statutory time limit, and how many appeals there are. It is also not known, if there are any lessons learnt disseminated from internal reviews. <p>All findings and recommendations were agreed with the Director of Housing and Regeneration and the Head of Housing Options.</p>	

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

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Disclaimer
 This report has been prepared for the use of the Audit Committee and Senior Management of the Council. Details may be made available to specified external agencies, including the external auditor, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared and is not intended for any other purpose.

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<p>Audit Committee</p> <p>23 November 2023</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Janet Fasan, Director of Legal and Monitoring Officer</p>	<p>Classification: Unrestricted</p>
<p>Review of Membership of the Audit Committee</p>	

<p>Originating Officer(s)</p>	<p>Matthew Mannion, Head of Democratic Services</p>
<p>Wards affected</p>	<p>All Wards</p>

Executive Summary

This report invites Audit Committee Members to review the composition and operation of the Audit Committee to reflect updated Guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2022.

This report presents a copy of that document for its review and information.

The guidance covers areas such as:

- The Core Functions of an Audit Committee
- Accountability and Public Reporting
- Assurance and Audit Arrangements
- Structure and Independence
- Membership
- Administrative Arrangements

The Monitoring Officer has reviewed the Guidance and in particular draws the Committee's attention to recommendations around the governance/membership and independence of the Committee.

A number of recommendations to change current arrangements are set out for the Committee to consider.

Any changes made to the membership/operation of the committee as a result of this report are likely to require changes to the Constitution, which will need to be agreed by the General Purposes Committee/Council as appropriate.

Recommendations:

The Audit Committee is recommended to:

1. Review and consider the CIPFA Practical Guidance for Audit Committees attached at Appendix 1 to this report.
2. Consider whether the Committee wishes to make any changes to its operation/membership in light of the Guidance and in particular to consider the options set out in Paragraph 3.23 in relation to the Membership and Independence of the Committee.

1 REASONS FOR THE DECISIONS

- 1.1 The Audit Committee is a key component of the Council's governance framework and as such it is important to review its operation from time to time, especially in light of new guidance, to ensure it is operating as effectively as possible.

2 ALTERNATIVE OPTIONS

- 2.1 A number of options are set out in the report but the Committee may have alternative proposals.
- 2.2 Equally, the Committee may determine that it is operating effectively and that no changes are required.

3 DETAILS OF THE REPORT

- 3.1 As the CIPFA Guidance says, the Audit Committee plays a vital role in the governance of the Council, providing an independent and high-level focus on governance, risk and control arrangements.
- 3.2 The Guidance highlights that where it operates effectively, an audit committee adds value to the authority by supporting improvement across a range of objectives and that to achieve wide-ranging influence the Committee will need energy, appropriate skills/knowledge, commitment from its membership alongside support and openness of the authority.
- 3.3 As a non-executive body, the influence of the Audit Committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

Key points in the Guidance

- 3.4 Members are encouraged to review the whole of the Guidance document set out as Appendix 1 to this report (the existing Terms of Reference are set out

in Appendix 2), however, the following section of the report sets out key points from the Guidance:

Independence and Accountability

3.5 The Committee:

- Should be accountable to the authority's governing body [ie Council].
- Should be independent of both the Executive and the Scrutiny Functions.
- Will have rights of access to and constructive engagement with other committees/functions.
- Can request reports and assurance from relevant officers.
- Be of an appropriate size [A suggestion of 6-8 Members] to operate as a cadre of experienced, trained committee members and to not be merged with other Committees such as those on Standards or Scrutiny.
- Should include co-opted independent members.
- Should meet at least 4 times a year and can meet in private if needed.
- Can meet with the external and internal auditors as required (including in private).
- Have regular attendance from relevant key officers such as the Chief Finance Officer, Head of Internal Audit, Chief Executive, Monitoring Officer as required.
- Report on its work at least annually as required.
- Should have free and unfettered access to the external auditors through the provision of private meetings between them and the committee.

Membership Skills

- 3.6 Members should be trained to fulfil the role so that Members are objective, have an inquiring mind and independent approach.
- 3.7 Members will have the ability to promote good governance and look to help achieve the organisation's objectives and hold their discussions in an unbiased and non-political manner.
- 3.8 Selection of Members - should be based on relevant skills and experience.

Separation from the Executive

- 3.9 The Mayor must not be a Member of the Audit Committee, the Cabinet Member for Resources should also not be a Member. Appointment of any Cabinet Member to the Audit Committee is discouraged.
- 3.10 If a Cabinet Member is included then there should be compensating arrangements such as a having an Independent Chair of the Committee or having more Independent members

- 3.11 There should be a two-year gap before a former Cabinet Member is appointed to the Audit Committee.
- 3.12 Members of the Executive should attend Meetings when required to brief the Committee on relevant matters.

Independent Members –

- 3.13 Independent members are recommended for the following reasons:
- To supplement the knowledge and experience of elected representatives in specific areas such as auditing or financial reporting.
 - To provide continuity outside the political cycle (which is particularly important where the membership can change annually).
 - To help achieve a non-political focus on governance, risk and control matters.
 - Having two Independent Members allows recruitment of people with different but complementary knowledge and experience.
 - Having two Independent Members shows a commitment to supporting and investing in the Committee.

Decision Making / Advisory

- 3.13 Finally, CIPFA recommends that the Audit Committee does not have any delegated decision-making powers and should just be advisory.

Current Committee Membership/Operation

- 3.14 The current composition of the Committee is 9 Members (5 Aspire and 4 Labour in line with proportionality). The Committee also have an Independent Person (Charlotte Webster) as an advisor – as the Committee is decision-making it cannot have Co-Opted Members.
- 3.15 The Committee is Chaired by a Councillor, elected at the Annual Meeting of Council. However, the Terms of Reference state that the Chair cannot be a Member of the Executive.
- 3.16 Currently, the Aspire group has 3 cabinet members on the Committee and the Chair is a Non-Executive Member of the Aspire Group.
- 3.17 The current membership and chairing does not reflect the CIPFA guidance and some options for members to consider are set out in paragraph 3.24 below
- 3.18 The Monitoring officer has discussed the Guidance with the Chair of the Committee, the Section 151/Chief Finance Officer and other colleagues.
- 3.19 The Monitoring Officer has also undertaken some research into the composition of Audit Committees or equivalent in some other Local Authorities

(9), including some with the Mayoral system. The outcome of the research is set out in the table at Appendix 3.

- 3.20 The research showed that there was one other Local Authority with the same number of cabinet members on the Audit Committee (3), but with an Independent Chair.
- 3.21 Members should note that the current membership was touched upon in the LGA informal feedback, along with a suggestion to have as Chair and Independent or a Member of the opposition.
- 3.22 Members may also want to consider what additional skills and/or training are required for fulfilling the role described in the Guidance.

Options for Membership/operation

- 3.23 Whilst there are a number of different options and arrangements that the Committee could discuss, the Monitoring Officer recommends that the Committee in particular, considers the options below, and note that changes to the Committee's terms of reference may be required to reflect whichever of the options are agreed.
- Exclude the Cabinet Member for Resources from the Committee Membership and limit the overall number of Cabinet Members on the Committee to no more than 1.
 - Have no Cabinet members on the Committee.
 - That if there are Cabinet Members on the Committee then the Committee should be Chaired by an Independent member.
 - Irrespective of the above, the number of Independent Members should be increased to two.
 - The overall number of Councillors on the Committee be reduced to seven (from nine) appointed on a proportional basis, so that the overall membership does not expand too far beyond the recommended maximum of 8 Members when including independent Members).
 - That the Committee should remain a formal decision-making body and not change to an advisory body.
 - That a Job Description is prepared for the Chair of the Committee setting out the requirements of the role including responsibility to ensure debate is held in an open and transparent and non-political manner.
- 3.24 The Committee are also free to consider any of the other recommendations contained in the report.
- 3.25 As set out earlier in the report, the document produced by CIPFA is guidance rather than statutory. However, it is a thorough guidance document from an important sector organisation and the Audit Committee should give due consideration to what is set out.

3.26 There are also a number of recommendations that the Monitoring Officer does not consider appropriate to implement at this time but the Committee are also welcome to review and consider these as well and a report could be brought back on those issue, these include

- Implementing a two-year restriction on former Cabinet Members from serving on the Committee.
- Turning the Committee into an Advisory Body rather than a Decision-Making Committee.

3.27 Should the Committee agree any changes to its Terms of Reference (such as changes to the Membership) the relevant Constitution changes will be taken to the next meeting of the General Purposes Committee for agreement to add to that document.

4 EQUALITIES IMPLICATIONS

4.1 There are no specific equalities implications arising from the report. However, a well-functioning Audit Committee can help ensure the Council is operating the most effective governance arrangements which in turn do cover key equalities matters and safeguards.

5 OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 The intention of this report is to increase the best value of the Audit Committee by ensuring it is operating in the most effective way.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 An allowance for a second independent person can be contained within existing Democratic Services budgets.

7 COMMENTS OF LEGAL SERVICES

- 7.1 Regulation 3 of the Accounts and Audit Regulations 2015 requires local authorities to have 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. The CIPFA guidance referred to in this report is not statutorily binding on the Council.
- 7.2 However, the adoption of methodologies and strategies of this report demonstrates the Council's compliance with these duties and with the duties set out in Section 151 of the Local Government Act 1972. This section requires every local authority to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs.
-

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix 1 – CIPFA Guidance on the operation of Council Audit Committees
- Appendix 2 – the current Audit Committee Terms of Reference
- Appendix 3 – Research into Committee arrangements at similar Local Authorities

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None.

Officer contact details for documents:

N/A

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Audit committees:

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The **Chartered Institute of Public Finance and Accountancy** (CIPFA) is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, major accountancy firms and 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 leads the way in public finance by standing up for sound public financial management and good governance.

The audit committee member in a local authority

2022 edition

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CIPFA is keen that the guidance provides practical support to audit committee members and those who work with the committee. It is therefore invaluable that we have interacted with audit committee members and officers through our training courses and events.

Thank you for providing your insights on 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

Introduction to the new guidance

As a member of your authority's audit committee, you play an important role in the good governance of the authority. The audit committee contributes to its overall success by examining how its arrangements for decision making, consideration of risk and operations work. The committee has a unique view – one that is non-political. Instead of focusing on policy and decision making, it examines the 'engine' of the authority – how things get done. Most importantly, it shines a light on areas where things might be missed or need to adapt or improve.

To be a success, your audit committee must have a good grasp of its role and responsibilities. It will also need to follow some good practice principles. These are set out in the [CIPFA Position Statement on Audit Committees](#).

The aim of this practical guide is to support you in your time as an audit committee member.

This section of CIPFA's guidance is for members of an audit committee in an authority. It will support both elected members and co-opted independent members (also known as lay members) to understand the purpose of the committee and its functions and their responsibilities as members of the committee. It will link to other sections of CIPFA's guidance, which will provide additional resources.

FURTHER SECTIONS OF CIPFA'S GUIDANCE

The 2022 edition of *Audit Committees: Practical Guidance for Local Authorities and Police* builds on previous editions but aims to better target the guidance at the most appropriate audience. This section is aimed directly at audit committee members in local authorities. A separate section covers the same material but for police audit committees.

Guiding the audit committee is a supplement to the member guide. It is aimed at those who support the committee, helping them to ensure that its operations are in accordance with the appropriate legislation and good practice. It also includes links to additional resources that are relevant for the committee's work. Audit committee members may also wish to access this supplement.

There are several appendices available, including example terms of reference, improvement tools and a knowledge and skills framework. These are available across all parts of this publication.

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The purpose of audit committees

Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

CIPFA Position Statement 2022

HOW THE AUDIT COMMITTEE SUPPORTS OVERALL GOVERNANCE WITHIN THE AUTHORITY

The overall aim of good governance is to align the authority's processes and structures with the attainment of sustainable outcomes. In practice, this means ensuring that:

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

Governance for the sector 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 (the full council or equivalent), as well as those with leadership roles and statutory responsibilities in the organisation, including the elected mayor (where applicable), chief executive, the chief financial officer (CFO)

and the monitoring officer. In local government, the governing body is the full council or authority. Putting good governance into practice requires both members and officers to play their part.

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, the authority sometimes delegates specific governance responsibilities, though CIPFA's recommendation is that the audit committee should remain an advisory committee.

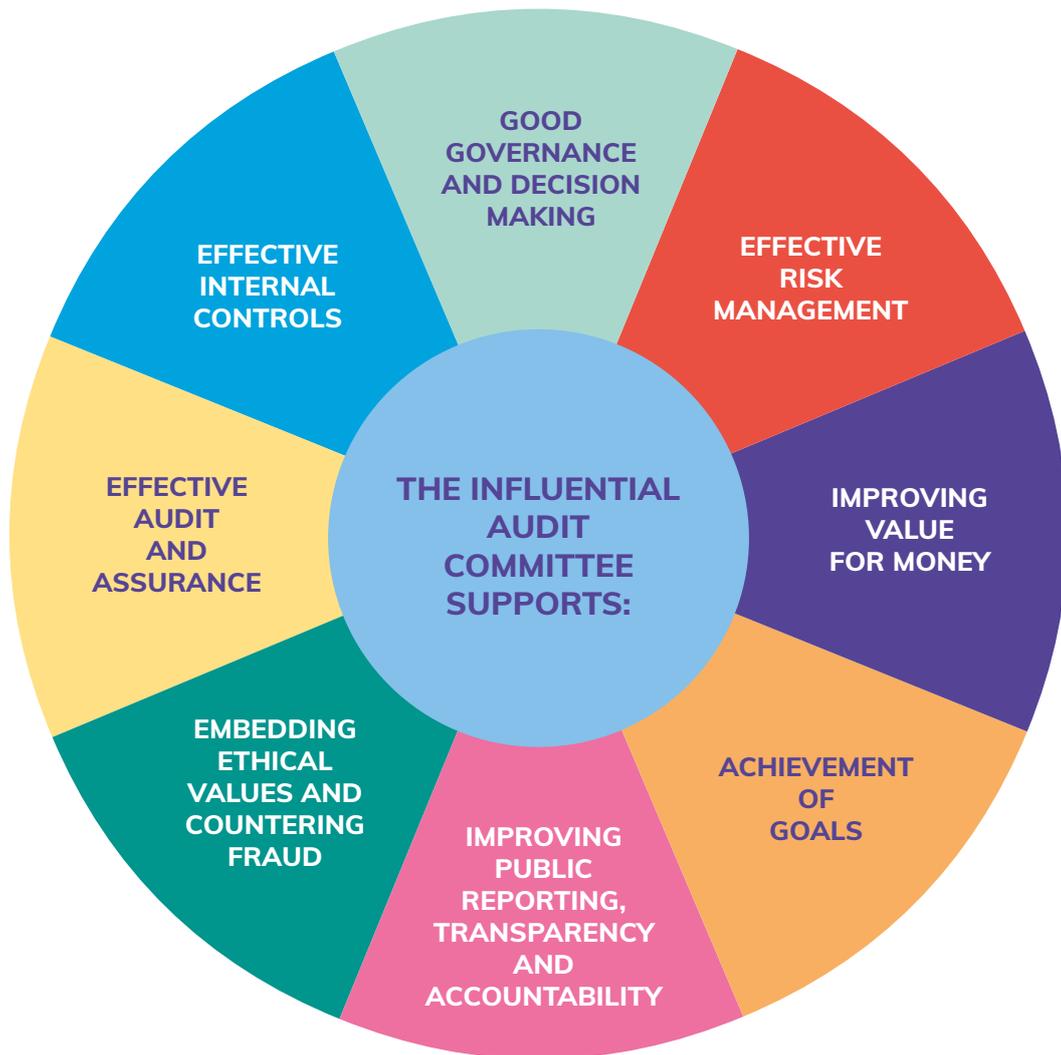
As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource for the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging 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 exert influence and add value are:

- aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements
- promoting the principles of good governance and how they are applied during decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements to govern risk and for effective arrangements to manage risk
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively across the authority
- reinforcing the objectivity, importance and independence of both internal and external audit and supporting the effectiveness of the audit functions
- 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 the risks of fraud and corruption
- promoting measures to improve transparency, accountability and effective public reporting to the authority's stakeholders and the local community.

The influence that an effective audit committee can have in these areas is set out in Figure 1.

Figure 1: The influential audit committee



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 committees, but a dedicated resource is likely to be more knowledgeable and effective, with more time to focus on these important issues.

The core functions of an audit committee

The core functions of audit committees should reflect both standard practice for audit committees across all sectors and the specific legislative and professional standards requirements for local authorities.

This chapter identifies the core areas of business for an audit committee and explains why they are important. The way the audit committee works must align with legislation and recommended guidance for some of these areas. This guidance is consistent with the requirements and key references are identified. *Guiding the audit committee* provides further details where required, together with links to additional resources.

The Position Statement sets out the core functions of the audit committee as follows.

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

- Be satisfied that the authority's accountability 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.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - support effective arrangements for internal audit
 - promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

The Position Statement sets out the core functions of the audit committee. Essentially, the responsibilities of the committee fall into three broad areas:

- 1 Supporting the establishment and maintenance of good governance, risk management and control arrangements.
- 2 Supporting accountability and public reporting, in particular the financial statements and the annual governance statement, and other statements that accompany the financial statements.
- 3 Supporting the establishment and maintenance of good arrangements for internal audit and external audit.

It's important to understand each area, and each area complements and supports the others. To be effective, the audit committee will need to operate across all areas and not just focus on one or two aspects.

The remainder of this section explains each of these areas in more detail. *Guiding the audit committee* provides more details on legislation, standards and supporting resources.

MAINTENANCE OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

Good governance

Local authorities should actively apply the framework of good governance (**Delivering Good Governance in Local Government: Framework** (CIPFA/Solace, 2016)) ('the Framework') and the seven principles of good governance. The audit committee plays an important role in supporting the Framework, not least with its approval of the annual governance statement (AGS), which should align with the Framework. CIPFA recommends that authorities should have a local code of governance to clearly explain how their arrangements are consistent with the principles of good governance. Where there isn't a local code, this information will be available through several sources. Whether or not there is a code, the committee should be able to understand what the authority's arrangements for governance are.

To provide a meaningful review of the AGS, audit committee members should be able to draw on their knowledge of the governance arrangements and on assurances they have received during 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 a framework of assurance underpins the AGS (see **Assurance and audit arrangements** 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.
- Review the governance arrangements being put in place for major developments, such as the establishment of a collaborative arrangement or trading company.
- 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 can promote the implementation of good governance across the authority to make things better in the future, not just review 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 **Independence and accountability**.

Where an authority is found to have failed in its statutory obligations to provide best value, the government has the power to intervene. The audit committee is one mechanism an authority should have in place to identify, escalate and oversee the improvement of any governance weaknesses to avoid the necessity of government intervention.

Further details on the AGS and the committee's role in reviewing it are included later in **Accountability and public reporting**.

Ethical framework

Public sector entities are accountable for not only how much they spend but also how they use the resources they have been entrusted with. This is at the heart of Principle A of the governance 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, authorities 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 authority can show 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 for achieving this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

The authority will have specific arrangements in place to oversee and operate standards, such as a standards committee, and the audit committee will not duplicate its responsibilities. Instead, its role is to oversee the arrangements that are in place to establish and maintain ethical standards and to obtain assurance over them. This supports the AGS.

Assurance over ethics will come from internal audit or from other sources of assurance, particularly for the annual review underpinning the AGS.

Risk management

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 the risk management arrangements provide 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.

- 1** Assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the ownership of and accountability for risks. Specifically, this includes:
 - 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.
- 2** 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 across the organisation)
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks, major operational risks or major project risks and seeking assurance that these are managed effectively and owned appropriately (the committee should avoid duplication of risk monitoring and scrutiny undertaken by other committees)
 - 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.
- 3** 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 of the body's arrangements, such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation, assurance and audit reports on risk management and monitoring progress on improvement plans.

Acting as a risk committee

Local government bodies do not usually establish a dedicated committee with responsibility for risk management. Instead, committees such as policy and resources, cabinet or scrutiny are likely to play a role in the oversight of individual risks and the adequacy of the risk response. The leadership team, including the executive member body, will take the lead in establishing the risk appetite of the authority. The audit committee should understand the roles played by other committees to avoid duplication and confusion with its own role.

Where other member bodies do not actively review key risks, the audit committee could take on additional functions involving more in-depth reviews of risks. In doing so, the committee should be mindful of when it is acting as a risk committee rather than just as an audit committee.

These functions could include:

- regular reviews of risk registers, particularly strategic risks, and significant operational risks to consider their adequacy and effectiveness in capturing and assessing risks
- risk challenge to evaluate whether planned mitigations are appropriate and effective, making recommendations to the responsible risk owner where appropriate
- identifying dependencies or links between risks and considering if the planned mitigations recognise this
- considering if risks have been escalated appropriately and in a timely manner
- supporting the leadership team in their review of risk appetite, though the final decision should remain with the leadership team.

The audit committee's terms of reference should make it clear whether risk committee roles are included.

Internal controls

The leadership team and the service managers within the authority are responsible for putting in place appropriate internal control arrangements. The aims of internal controls are to:

- manage risks
- allow agreed policies and processes to be put into practice.

In doing these two things, an effective 'internal control framework' will make it more likely that the authority's objectives will be achieved. The internal control framework is a way of describing the complete set of controls that management have put in place.

Controls may take different forms according to the risks that they are intended to manage and their purpose. Some examples of controls include the following:

- Access controls within an IT system determine who has access to that application and the available functions and data (a preventative control).
- Procurement rules, guidance and relevant training may be used to ensure that procurement decisions are within the law and achieve best value (a directive control).
- An exception report identifies outlier transactions in a process for review and approval by management (a detective control).
- Procedures to ensure that a copy of data is kept secure and away from the primary system to allow for recovery (a corrective control).

The control framework will include many corporate arrangements such as an authority's financial regulations, contract standing orders and human resources policies, as well as service-specific controls embedded within a range of policy documents, guidance notes, training manuals and instructions. Some authorities use a structured framework to classify their control frameworks. Some controls are fundamental to a system; often, they are described as 'key controls'.

The effectiveness of the internal control framework should be considered as part of the annual review on governance. Where there are significant control failures, or an overall weakness in the framework, then it should be considered for disclosure in the AGS. CIPFA's **Financial Management Code** (FM Code) (2019) provides a set of principles covering the operation of financial management throughout the authority to help ensure that internal financial controls operate effectively. Assurance over the level of compliance with the FM Code should be considered as part of the annual review on governance.

The head of internal audit's annual opinion (see [Internal audit](#)) will provide an annual opinion covering the framework of internal control alongside that of risk management and governance. This too will inform the AGS. Reports from internal audit and external audit will provide assurance on the adequacy of specific controls.

Historically, internal audit and the audit committee were expected to focus most on financial controls, but today the focus of both will encompass a much broader set of controls.

While a range of internal controls are essential, the audit committee should be conscious that too many controls could result in greater inefficiency or ineffectiveness in an operation. Controls may also become outdated or otherwise no longer fit for purpose. Introducing new controls may incur additional costs or other resources. The committee should strive to ensure that the authority has an appropriate level of internal control linked to the authority's attitude to risk.

Value for money and best value arrangements

Making best use of resources is a key aim for all local authorities and is part of the governance framework. One of the behaviours and actions that underpins Principle C of the Framework is "delivering defined outcomes on a sustainable basis within the resources that will be available". Making best use of resources is an essential enabler to achieving the goals and objectives that the authority has set for itself.

Like other aspects of the committee's responsibilities, the primary focus is on the authority's arrangements for ensuring value for money rather than reviewing the actual performance achieved. This means seeking assurance that the authority has put in place the right mechanisms and is actively pursuing better value for money.

When planning work in relation to value-for-money arrangements, the audit committee should be mindful of what other committees may do. There is a potential overlap with the work of the scrutiny function, so care will be needed to avoid duplication. For example, a scrutiny committee may receive performance reports that show performance against a dashboard of indicators or may benchmark performance against other bodies.

Using this information, the scrutiny committee will challenge whether the authority is on track to achieve its performance targets and meet its objectives. They will highlight areas where value for money may be an issue. The audit committee will first focus on the overall arrangements that are being put in place to achieve value for money. They will receive assurances, from internal audit or from other sources of assurance, on how effectively those arrangements work in practice. As a result of the work of the audit committee, areas of concern about value for money may be identified and recommendations for further action or investigation made.

The audit committee will see references to value for money as part of other areas within its terms of reference. For example:

- Internal audit reports may highlight a value-for-money risk as part of a wider assurance review. It may feature in the head of internal audit's annual opinion.
- The AGS should include reference to how effectively the value-for-money aspect of governance is operating in practice. A value-for-money concern could be included as a recommendation for action if it were significant.
- Output from the risk management arrangements may highlight risks to value for money.

One major area where the audit committee will receive assurance on the adequacy and effectiveness of value-for-money arrangements is from the authority's external auditors. Across the UK, the different audit arrangements have resulted in differences in how value for money and best value are considered by the auditors. Further details of audit processes are set out in *Guiding the audit committee*.

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. If money is misdirected or assets lost to fraud, it means that limited budgets are less able to meet service demands and fulfil the authority's objectives. When any authority experiences a significant fraud or case of corruption, it damages public perception of that authority and undermines public trust. Effective counter fraud and anti-corruption arrangements also relate to the ethical standards that the public expects members and officers to uphold.

The audit committee should have oversight of the authority's arrangements for managing the risks from fraud and corruption, providing assurance that they are fit for purpose. The arrangements should extend beyond having the facility to investigate an allegation or other evidence of fraud. It should include a much broader strategy and understanding of the risks. Guidance on establishing such arrangements is available to authorities in the [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#) (2014).

Oversight of counter fraud plans and availability of 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 overall performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses
- consideration of assurance provided by internal audit.

The CIPFA guidance on the AGS recommends that the adequacy of counter fraud arrangements is evaluated and reported in the AGS using the counter fraud 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.

Arrangements for partnerships, collaborations and subsidiaries

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). Increasingly, authorities have subsidiary arrangements such as commercial trading companies.

Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is 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 assurances 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 that standards of probity are maintained.

For subsidiary arrangements such as the establishment of a trading company, the audit committee will also need to receive assurances that the governance, risk and control arrangements of the authority's oversight of the company are robust.

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. When reviewing the proposed structure, the committee should consider whether the authority has the necessary expertise, advice and training in place to take on new governance roles.

It is also important that the committee clarifies its own responsibilities in relation to the governance arrangements of the new service delivery organisation. Will they act as the audit committee for the new structure, for instance?

The audit committee should consider assurances that underpin the AGS to make sure that partnerships are covered. Where a partner organisation (such as a shared service entity) 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 to support the CFO.

ACCOUNTABILITY AND PUBLIC REPORTING

Public bodies must operate transparently, and being accountable to the public and stakeholder groups is a fundamental aspect of governance arrangements. The audit committee plays a key role in supporting the body's accountability for the use of public money and for the way it is governed. While other public reports are also available, the annual financial reports and the annual governance statements are important accountability statements that are mandated by legislation and guided by professional standards. These accountability statements are the responsibility of those charged with governance, but the audit committee will play a key role in reviewing the arrangements that underpin them and reviewing the statements themselves.

Financial reporting

Local government bodies are required to produce their statutory statements of accounts in accordance with professional accounting standards to ensure a consistent approach and appropriate treatment. This provides confidence to the user in the financial results. The accounting standards are determined by CIPFA/LASAAC and are set out in the **Code of Practice on Local Authority Accounting in the United Kingdom**, updated annually. These standards must incorporate both International Financial Reporting Standards (IFRS) and any adaptations or interpretations necessary for the local government context and local government legislation. A particularly important part of this is the legislative framework that changes what is charged to a revenue account under accounting standards (IFRS) to mitigate or manage the impact of those standards on council taxpayers. As a result, the accounts have an extra layer of complexity that an organisation such as a limited company would not have.

The primary users of financial statements are the recipients of the local services provided and their representatives, together with the providers of the resources required to deliver those

services. Local authority members and Members of Parliament are primary users of local authority financial statements in their capacity as representatives of the interests of service recipients and resource providers.

CIPFA's [Guide to Local Government Finance](#) (2019) sets out details of accounting concepts and principles that underpin the financial reports. The key financial statements are as follows:

Key statements in annual accounts	
Comprehensive Income and Expenditure Statement	This is where all the income and expenditure of the authority is recorded in line with accounting rules. This statement is similar to the one you would find in a private company.
Movement in Reserves Statement	This statement shows the impact of the financial year on the authority's reserves. It also includes all the income and expenditure that is recognised under accounting rules but then removed from the accounts by legislation to give the amount of expenditure that has been funded by the local taxpayer.
Balance Sheet	This statement summarises an authority's financial position at each year-end and reports the assets, liabilities and reserves of the authority. Some of the reserves are specific to authorities, such as the pensions reserve and the capital adjustment account, and exist to allow accounting entries required by legislation. This statement is similar to the one you would find in a private company.
Cash Flow Statement	This summarises the cash flows that have been made into and out of the authority's bank account during the financial year. This statement is similar to the one you would find in a private company.

Some authorities will need to include specific statements to account for their activities – for example, the Housing Revenue Account (HRA) or collection fund – and councils in Scotland are required to hold trading accounts (some councils in the rest of the UK may hold these voluntarily). Administering authorities of the Local Government Pension Scheme will also need to produce pension accounts for their fund.

Authorities are required to include a narrative report in the accounts (management commentary in Scotland). This should provide information on the authority, its main objectives and strategies, the principal risks that it faces and how it has used its resources to achieve its desired outcomes in line with its objectives and strategies. For a non-expert reader, this report will help to explain the statements and help demonstrate the extent to which the objectives of the authority have been achieved.

The role of the audit committee is to review the financial statements prior to approval. The statements are the responsibility of all those charged with governance – the full member body – but the audit committee is delegated the responsibility of a detailed review. Some authorities fully delegate responsibility to the audit committee by including final approval of the accounts in the committee's terms of reference, but CIPFA has always set out the committee's role to be one of review rather than decision making. In England and Wales, co-opted independent members cannot vote to approve the accounts under Section 13 of the [Local Government and Housing Act 1989](#) (see [Membership and effectiveness of the audit committee](#)).

Accounts preparation

The preparation of the statutory statements of accounts is the responsibility of the CFO. The deadline for the publication of the statements is set out in regulations by each of the UK governments. Recently, achieving these deadlines has been adversely impacted by the COVID-19 pandemic and delays in the completion of audits. Monitoring the status of both completion of the statements and liaison with the auditor before publication will be important for the audit

committee. The audit committee will want assurance that the finance team can deliver a set of financial statements of appropriate quality in accordance with the statutory deadlines. Factors they will wish the finance team to highlight to them include:

- significant changes in accounting policies and their implications
- significant judgements made by the authority on material transactions
- changes to the operational basis of the authority – for example, the establishment of a trading company that will need to be consolidated into the accounts
- capacity and capability within the finance function to meet quality standards and deadlines
- whether there have been previous problems with the quality of the financial statements – for example, issues and recommendations from the previous year’s audit
- issues arising from any internal assurance or internal audit reviews and actions taken
- any changes to the external audit requirements that could have implications for the preparation of the statements – for example, the drive to improve audit quality has included increased professional scepticism.

Reviewing the statutory statements of accounts

The complexity and length of the financial statements can be daunting for audit committee members, especially if this is an area where they do not have prior experience. CIPFA has resources that will provide more detailed guidance on the statements and underlying concepts, and specific training is also recommended.

Key areas that the committee should focus on in their review are as follows:

- The narrative report, ensuring that the messages are consistent with the financial statements. The committee should also consider the implications of the issues and challenges identified and consistency with other risk information provided.
- What steps have been taken to make the narrative report readable and understandable to a non-expert and whether steps have been taken to make the accounts accessible. CIPFA’s **Streamlining the Accounts** (2019) includes a section on the presentation and layout of the accounts.
- Reviewing the completeness of the information reported and asking about the steps taken to ensure that the disclosures are complete.
- 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 against financial performance observed over the course of the year.
- Reviewing the suitability of accounting policies and treatments and any changes to them – for example, asking the CFO to highlight to the committee where accounting treatment is open to different approaches and explaining why the method used has been chosen.
- Seeking explanations for changes in accounting policies and treatments – for example, where there has been a change in the accounting standards.
- Reviewing major judgemental areas – for example, provisions or reserves.

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.

A current topic for discussion is whether further steps could be taken to make the financial statements more understandable for the public. A recommendation of the Redmond Review was that a standardised statement of service information and costs should be prepared and presented alongside the statutory accounts. This recommendation is still under discussion and review, and the introduction of such a statement would be a development of interest to the audit committee. The audit committee will be interested in any steps taken to improve transparency and accountability by ensuring that the key messages are accessible to users.

Annual governance statement

The committee's role in supporting the principles of good governance and the local code of governance was outlined in the section on supporting good governance, risk management and internal control. The AGS is the key annual public report that requires the authority to evaluate the effectiveness of its governance arrangements.

While the committee will see other agenda items that describe the governance arrangements that have been established – notably updates to the local code of governance – the AGS is all about evaluation. It is an assessment of how good those arrangements are in practice, leading to an opinion on whether they are fit for purpose. Where there are areas for improvement, these should be identified and an appropriate action plan established.

The audit committee should play a key role in reviewing the AGS prior to its final approval. It is typical for the AGS to be provided in draft, usually at the same time the financial statements are prepared. The timetable for final publication follows the regulations of the relevant UK national government.

Key aspects that the audit committee should consider when reviewing the AGS include:

- whether the statement is user friendly for a lay reader
- whether the statement focuses on evaluation, leading to a clear opinion of whether arrangements are fit for purpose and meet the principles of good governance
- whether the AGS is an accurate representation of arrangements, consistent with other information known to the committee (committee members should be able to recognise their own authority's strengths and weaknesses)
- whether it includes appropriate disclosures on conformance with specified codes and standards and is consistent with current CIPFA guidance
- whether the AGS is supported by an appropriate action plan to implement the required improvements and if this is robust.

Although the AGS publication follows the same timetable as the financial statements, it can also be published as a separate accountability report. This would help raise its prominence and value to local stakeholders, providing improved transparency.

ASSURANCE AND AUDIT ARRANGEMENTS

Assurance frameworks and assurance planning

The term 'assurance framework' is used to describe the various means through which the authority's leaders, managers and decision makers can trust that the policies and procedures they have approved are being implemented in practice and operating as intended. Putting in place this framework is the responsibility of the leadership team.

For the audit committee member, reviewing assurances on the operation of governance, risk management and control arrangements is a core part of their role. The committee should also be concerned to know that an adequate assurance framework exists to inform the leadership team.

The audit committee may see references to the Three Lines Model of assurance developed by the Institute of Internal Auditors (IIA). More details of the model are contained in *Guiding the audit committee*. Briefly, the Three Lines Model identifies three different types of assurance:

- Management assurance – embedded in line management arrangements.
- Oversight and compliance assurance – review and monitoring functions.
- Independent assurance (internal audit).

Occasionally, there might be reference to the ‘fourth line’, referring to assurance that comes from outside the authority such as from external auditors or inspectorates.

Some authorities set out their assurance arrangements in a map or diagram. Typically, these outline key areas of the assurances needed and identify the assurance providers.

Whether or not there is a formal 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 seek to ensure that assurance is planned and delivered, with the following objectives in mind:

- Clarity on 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.

Each authority has core activities that are central to its effective operation, and the audit committee should consider what assurance it receives on these, whether through the annual governance review, internal audit or management assurance. Core arrangements would include financial management and counter fraud, but other key areas include information governance, information security, procurement, ethical governance, human resources and health and safety.

In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the authority, and it should therefore be proportional to the risk.

Supporting and making best use of audit

Supporting the authority’s auditors, both internal audit and external audit, is an important dimension to the committee’s work. Helping to make best use of the process of audit and audit outputs will contribute to the committee’s overall purpose. This section explains the committee’s interactions with both internal and external audit and the role of the committee in supporting effective arrangements.

External audit

Within an authority, the full council – all elected councillors – are characterised as “those charged with governance”. In practice, the exercise of some governance responsibilities is delegated to specific committees. This is of particular importance in relation to external audit, as external auditors are required by auditing standards to report to “those charged with governance”. While

the audit committee is the representative body for much of the interface with the external auditors, it is important to remember that all councillors have a governance responsibility, and it is important that they are familiar with key messages from the authority's external auditors.

The audit committee will have several interactions with the external auditors each year following a regular cycle of planning and reporting. There are also roles for the committee in supporting the independence of the auditors, the effectiveness of the external audit process and the impact of their work. The following sections provide more support for the critical interactions between the auditor and the committee. External audit is subject to stringent professional standards and some of these are highlighted in *Guiding the audit committee*. Committee members should recognise that these standards do require auditors to operate in a certain way.

Appointment

In some other sectors, the audit committee plays a lead role in the appointment of the external auditor. In local government, one of the principles of public audit is that appointment should be independent of the organisation. In local government bodies in Wales, Scotland and Northern Ireland, the national audit bodies are responsible for the delivery of local audit. In England, the **Local Audit and Accountability Act 2014** changed the appointment and delivery model for local government bodies, introducing a more direct role for the authority.

In all authorities, the audit committee's role in appointment includes expressing 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, Public Sector Audit Appointments (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 and provide advice to the authority on the final selection. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee can 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 To provide assurance that the external auditor team maintains independence following its appointment.
- 2 To receive and consider the work of external audit.
- 3 To support 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.

Each year, the external auditor will disclose to the committee an assessment of whether it is independent. These disclosures 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 and when reporting. The audit committee should use these opportunities to discuss their assessment of threats to independence with the external auditor and any safeguards.

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, the auditor panel (in England), or from audit quality reviews by the Financial Reporting Council (FRC) or the Institute of Chartered Accountants in England and Wales (ICAEW). Regarding non-audit services, audit committees should monitor the approval of non-audit work and, in England, consider 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 makes recommendations, the audit committee should discuss the action to be taken with managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit report.

While the Code of Audit Practice for each nation will specify exact outputs, the reports from the external auditors are likely to include the following:

- A plan – including approach, risks, team, timetables and outputs.
- Interim reports – reporting on progress, new developments and interim conclusions.
- An opinion on the financial statements and the outcome from the audit. The auditor will also identify any material errors and recommendations.
- Best value or value-for-money arrangements reports – the format of these vary according to the Code of Audit Practice the auditor is working to.
- An annual report.

In England, the Redmond Review recommended that the auditor's annual report should be submitted to full council by the external auditor. CIPFA's recommended approach is that the report should first be submitted to the audit committee for discussion and then submitted to full council by the auditors, accompanied by the response recommended by the audit committee to any significant issues raised in the report. This will support greater transparency with the public and help all elected members understand the outcome of the audit. It should also help to raise the profile of the audit committee among other elected members.

CIPFA also recommends that this approach is adopted by authorities in the rest of the UK unless other arrangements exist to achieve the same level of transparency and strengthened governance.

Auditors may also report by exception. If they identify an area of concern, then the auditors may investigate and may make a recommendation for improvement or a public report. Any such action should be taken very seriously by the audit committee.

Supporting quality and effectiveness

If the audit committee member has no prior experience of audit committee work or external audit, then reviewing the quality of external audit can be a challenging aspect of the work and one where additional training may be required. It is an important aspect of the work of the committee, as it sets expectations for the auditor for the timely delivery of a high-quality audit. It should also support better engagement and interaction between auditor, committee and management. Overall, active interest from the committee will support better outcomes in terms of confidence in the audit opinion, usability of audit output and better understanding of the audit process.

Guiding the audit committee signposts resources on audit quality that can be of use to audit committees.

Reports from inspectorates or other regulatory bodies

In addition to audit reports, the authority may be inspected where it has particular service responsibilities. For example, social care services are inspected by the Care Quality Commission (CQC), education and skills services are inspected by the Office for Standards in Education, Children's Services and Skills (Ofsted), and a fire and rescue authority will be inspected by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS). Other regulatory bodies, such as the Information Commissioner's Office (ICO), may also review and inspect arrangements.

Where inspectorates are focused on operational matters, the committee's role may be limited, but all external assessments and recommendations provide assurance on the robustness of governance, risk and controls within the authority. It is therefore important that the committee is aware of the overall conclusions. Where issues are highlighted by inspections within the remit of the committee, it may play a more active role – for example, reviewing the implementation of an improvement plan. The committee will also want to consider how the work of these assurance providers are taken into account as part of external audit or internal audit.

Internal audit

The authority's internal audit service, whether an in-house team or provided through a shared service or outsourced arrangement, is an essential partner for the audit committee. It is a major source of assurance, providing coverage across many areas that the audit committee will want to know about. The committee also plays an important role in the support for and oversight of the internal audit arrangements, helping to hold it to account. This role is in part determined by the professional standards that the internal auditors must adhere to.

The specific roles of the audit committee in relation to internal audit are to:

- 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.

The activities that underpin these three objectives are below.

Oversee independence, objectivity, performance and professionalism

The Public Sector Internal Audit Standards (PSIAS) set out functional reporting arrangements for internal audit to ensure its organisational independence. These are requirements of the professional standards, so there is an expectation that the audit committee should provide support. Each authority will have an internal audit charter, which will set out reporting relationships for internal audit, and the audit committee terms of reference will need to include those elements that relate to it. The charter is likely to set out the audit committee's responsibility 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 (referred to in the PSIAS as 'chief audit executive') or the award of a contract for internal audit services

- make enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations on internal audit
- 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 head of internal audit's 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 Local Government Application Note (LGAN)
 - the results of the quality assurance and improvement programme (QAIP), 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
- receive the report on the external assessment of internal audit (at least once every five years), including its overall conclusion and any recommendations (the committee should monitor the implementation of the improvement plan).

The head of internal audit, also known as the chief audit executive, must have 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 QAIP, at least once every five years.

Support effective arrangements for internal audit

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. It should help ensure that the authority's internal audit is effective, which will mean that the audit committee is better supported, with access to the assurance it needs. Effective internal audit also supports better governance and control arrangements, which are aligned to the audit committee's overall purpose.

Defining the conditions for effective internal audit is not straightforward – different authorities may feel they have effective arrangements using very different service models, for example. However, there are some essential conditions that internal audit needs to be effective:

- A service that operates in accordance with PSIAS.
- A service with access to sufficient and appropriate capacity and capability.
- Leadership from the head of internal audit.
- Good engagement with the committee and management.
- An organisational culture that actively promotes and understands the role of internal audit.

While the designated head of internal audit can be expected to be responsible for internal audit activity, the audit committee plays an important role in supporting the organisation's attitude to and understanding of internal audit. The [CIPFA Statement on the Role of the Head of Internal Audit](#) (2019) sets out the conditions that can make internal audit effective. It is relevant for audit committee members as well as the head of internal audit. CIPFA's research report [Internal audit: untapped potential](#) (2022) also addresses whether public bodies are getting the most from internal audit.

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 internal audit'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 considers the requirement to produce an annual internal audit opinion that can 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
- escalating internal audit recommendations where further action is needed
- bearing in mind internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control when considering the AGS.

To get the best out of internal audit, the audit committee's understanding of and support for effective risk management and wider assurance arrangements is helpful.

Periodically, there are changes made to the PSIAS and LGAN, as well as more specific guidance to auditors. As a result, the committee may need to receive updates or briefings to ensure that they are aware of the latest requirements.

ENSURING THE FOCUS OF THE AUDIT COMMITTEE

The core functions of the audit committee are wide ranging. At some meetings, it will be inevitable that certain agenda items take priority to meet statutory deadlines. Audit committees should aim to ensure that within each year there is adequate coverage of each of the core functions. The assurance framework of the authority should be a useful resource to support this.

Independence and accountability covers agenda management and **Membership and effectiveness** of the audit committee covers the annual review of the effectiveness of the committee.

Possible wider functions of an audit committee

In addition to the core functions of the committee defined in the CIPFA Position Statement, there are some wider functions that it may be necessary or appropriate for the committee to take on. For audit committees of councils in Wales, there are some specific requirements set out in legislation.

REQUIREMENTS OF GOVERNANCE AND AUDIT COMMITTEES IN WALES

The **Local Government and Elections (Wales) Act 2021** built on requirements first set out in the **Local Government (Wales) Measure 2011**. The specified responsibilities not already covered by the core functions include:

- review and scrutiny of the authority's financial affairs
- review of the performance assessment arrangements of the authority
- review and assessment of the authority's ability to handle complaints effectively.

Scrutiny of financial affairs

Councils will have scrutiny committees that will undertake budget scrutiny and monitor financial performance. The responsibility of the audit committee is not to duplicate these functions, even though the legislation uses the phrase 'scrutinise'. The committee can ensure that they satisfy this requirement through their review of the financial statements, financial control arrangements and the work of internal audit and external audit.

Performance assessment arrangements

The 2021 Act introduced a duty on a principal council to keep its performance under review and to undertake a self-assessment of performance. The legislation requires the governance and audit committee to review the self-assessment report and the committee can make recommendations. The council is not required to adopt the committee's recommendations, but it should include an explanation of why it has not adopted the change.

There is also a requirement for a periodic panel performance assessment, and there is a similar requirement for the governance and audit committee to consider the panel report.

The Auditor General for Wales will have the power to undertake a special inspection if a council is thought to not be meeting the performance requirements. The governance and audit committee will receive the Auditor General's report and will consider the council's draft response to the report. If the committee makes recommendations on the draft response, the council is not required to adopt the change but must explain why it has not.

Developing the approach to the review

The governance and audit committee's focus is on the adequacy and suitability of arrangements rather than performance monitoring. In reviewing the annual self-assessment report the committee should maintain a similar overview. **Page 77**

CIPFA's suggested approach includes:

- consideration of whether the scope and approach to drawing up the self-assessment report is appropriate to fulfil the expectations of the legislation
- whether the council has established appropriate arrangements to obtain assurance over its performance (these arrangements should form part of the wider assurance framework)
- whether the council has carried out the appropriate consultation as part of the performance review
- considering if the panel appointed and the approach to the panel assessment fulfils the requirements of legislation
- whether the report's conclusions and recommendations are consistent with the review and assurances that underpin it
- consideration of whether there are any inconsistencies in information and assurances received by the committee in respect of its other work
- consideration of the recommendations and whether they will maintain and improve the arrangements for performance management going forward.

Arrangements for handling complaints

Assurance that there are effective arrangements to manage complaints could come within the remit of any audit committee. The specific requirement in Wales does mean that governance and audit committees will have increased focus in this area.

The focus will need to remain on the arrangements and not become a forum for the review of individual complaints. The committee will need to consider how they receive this assurance as part of the wider assurance framework. Complaints may be managed centrally or by individual department, but it should be possible for the committee to receive an overall assessment of the effectiveness of those arrangements. If complaints handling was seen as an area of risk, then it could be included in internal audit plans, but other sources of assurance should be routinely available.

TREASURY MANAGEMENT

Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance

Notes (CIPFA, 2021) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not specify this to be an audit committee 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.

Where the audit committee has been nominated, it should be aware that it needs to undertake a scrutiny role in accordance with the Treasury Management Code in addition to any oversight of governance, risks and assurance matters relating to treasury management that it would consider as an audit committee.

Where the committee is undertaking scrutiny, 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 three of the Treasury Management 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.

SUPPORTING CORPORATE IMPROVEMENT PROGRAMMES

When an authority is working to an improvement programme – perhaps following a best value review or inspection – there is likely to be an oversight role for the audit committee. The committee should receive assurances that actions are being implemented and recommendations addressed. There may be a dedicated board for the programme and the committee would not seek to duplicate their work. It will need to understand progress, as it will be an area of interest to the external auditors and will link to the action plan of the AGS. Where there are areas of improvement directly within the remit of the committee, it may play a more active role.

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 in 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 of 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 as 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.

Independence and accountability

The audit committee of an authority should be established in accordance with the principles set out in the 2022 Position Statement. These will ensure that the committee is independent from other committees in the authority and is accountable to those charged with governance.

Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body
- in local authorities, be independent of both the executive and the scrutiny functions
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

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 chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

CIPFA Position Statement 2022

STRUCTURE AND INDEPENDENCE

Committee size

In other sectors, audit committees typically have fewer than six members. This is more difficult to achieve in a local authority. CIPFA's recommendation is that authorities should strive to have no more than eight members.

A committee of this size should allow sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.

The use of substitutes on the committee is not recommended. The most effective membership will be based on knowledgeable and skilled members who are able to build on information gained at previous meetings. For example, when reviewing progress on the external audit, the committee member should have been sighted on the audit plan discussed at an earlier meeting.

Reporting lines

The audit committee is an advisory committee on behalf of those charged with governance. As a result, the committee should report to the full council, fire authority or other local government governing body. It is not appropriate to be a sub-committee of the cabinet, scrutiny or policy and resources committee.

Dedicated focus

To ensure a focus on the core functions, the committee should not be combined with other council committees such as scrutiny or standards or policy and resources. A combined committee can result in the distinction between the functions of the committees becoming blurred. The audit committee is non-political and should contain co-opted independent members. These arrangements are different to those of scrutiny. While a standards committee is also non-political and may contain lay members, its focus is different. An appropriate lay member for the audit committee may not be suitable for the work of the standards committee and vice versa. More details on the membership of the committee and role of the co-opted independent member are available in [Membership and effectiveness of the audit committee](#).

Decision-making powers and delegations

CIPFA does not recommend that the audit committee be delegated decision-making powers, as it is advisory.

The committee should be able to make recommendations to other bodies for decisions – for example, to a scrutiny committee for further scrutiny review, and to cabinet, policy and resources or full council for decision. The committee can also make recommendations to the leadership team and service managers – for example, in response to issues raised by auditors.

CIPFA is aware that some authorities do delegate decisions, such as the approval of the financial statements. While the audit committee should lead on the detailed review of the statements, ultimately the statements are the responsibility of all those charged with governance. This is the equivalent of shareholders approving the annual report and accounts of a company.

Rights of access to documents and requesting attendance at committee

As a committee of the authority, the audit committee can request information relevant to its role and agenda. It is good practice to agree on a template so there is clarity for all parties. Generally,

authorities operate on a principle of openness and transparency, so there should not be a difficulty in providing relevant information. At all times, the authority will need to have regard for maintaining confidentiality of personal or commercially sensitive data in accordance with guidance.

There may be times when it is not considered timely to provide the information requested – for example, where information is sensitive because of an investigation. In such cases, an adequate explanation should be given and an indication of when information might be available. The chair in particular needs to be briefed.

It is important for audit committee members to maintain an apolitical approach and a focus on overall arrangements rather than individual cases. The committee is not an investigative forum.

It will be helpful to request the attendance of officers at the committee to support discussion of a topic or to agree on the next steps. For example, if the committee wishes to review an internal audit report that identified significant areas for improvement, then it would be appropriate for the lead manager or director responsible for that service to attend the committee to discuss how they will address the weaknesses.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Supporting the audit committee

As a full committee of the authority, the committee will receive secretariat support. It will also receive guidance on the proper conduct of the meeting under the authority's constitution and legislation.

The chair of the committee should take part in planning the agenda, helping to ensure that the committee addresses its terms of reference.

Frequency of meetings

CIPFA recommends the committee should meet a minimum of four times per year. The number and frequency of meetings should be determined by what is efficient and effective to cover the work of the committee.

Some agenda items need to be considered at certain times of the year, such as the financial statements and AGS. Other items will be more flexible and others determined by urgency. An annual meetings planner can help to schedule core business throughout the year to achieve adequate coverage and a balance of activity.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken in balancing the frequency of meetings against the need to give the committee's business sufficient focused attention, without lengthy and unproductive meetings. Equally, the audit committee should review whether including 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. Take care to avoid straying into matters of operational detail that service managers should resolve. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Transparency

Audit committees will normally meet in public, and agendas and minutes will be published. On occasion, there will be agenda items that meet the criteria to be heard in private. The chair should receive advice when a 'part 2' report is scheduled. The rationale for this should be stated.

Some authorities provide facilities for public questions at the start of a meeting. This supports openness and transparency but requires committee support to ensure questions are relevant for the scope of the committee.

Meetings and interaction outside scheduled meetings

The committee may meet informally as required to fulfil other requirements – for example, to take part in training or briefing or conduct a self-assessment.

It is typical for political group meetings to take place before a policy committee meeting; however, the apolitical nature of the audit committee should make such meetings unnecessary.

It is likely that some information will be shared with committee members outside scheduled 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. 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 the external auditor and head of internal audit

It is standard practice for the external auditors and head of internal audit to have direct access to the audit committee. This helps to reinforce the independence of the auditors, helping them to maintain their professional standards. It also reinforces the independence of the audit committee. A private meeting provides a safe space for discussions and questions. Even if the auditor has no concerns, the meeting provides additional assurance of that.

Suggested questions to ask at a meeting include the following:

- Are you free to determine the scope of internal audit without interference?
- Do you have the access to senior management that you need?
- Do you have any concerns about governance arrangements that you are not comfortable sharing in front of management or in public?
- Are there any emerging governance risks that the committee should be alert to?

The meeting could also be used to test out a question on the auditor, perhaps when the audit committee member is not sure if it is an appropriate question to ask. The meeting thus provides a safe space for committee members and enables the member to ask with confidence in the open meeting. However, it is important that a private meeting is not used as a substitute for formal committee meetings, as this would undermine openness and transparency. Like all aspects of the committee's work, a private meeting should be non-political.

As a minimum, there should be a facility for a private meeting once a year, but they should be made available on request. The committee can meet separately with external audit and the head of internal audit, but a joint meeting could also be an option. To support transparency, the chair should report that a private meeting has taken place at the next audit committee meeting and summarise the topics discussed.

If governance concerns are raised with the audit committee in a private meeting, the chair of the audit committee should agree appropriate steps with the auditor. This would normally include follow-up discussions with one or more of the statutory officers.

KEY RELATIONSHIPS

To be effective, an audit committee will need to engage with a wide range of officers. Representatives of finance and internal audit will attend regularly and often are a source of support to the committee, but other senior officers would normally be expected to attend. While it is for each audit committee to determine who attends its meetings, the following examples show the wide range of officers who can add value to audit committee meetings:

- The chief executive and corporate directors for the AGS and other governance-related issues.
- The monitoring officer for the AGS and ethical governance issues.
- The risk management officer for discussions around risk management.
- The 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.
- Scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Interactions with the head of internal audit will need to take account of the professional standards (PSIAS), so that the correct oversight and reporting can be demonstrated.

ACCOUNTABILITY

To those charged with governance

The audit committee should be held to account regularly by those charged with governance – full council or the equivalent body in another authority. Accountability should cover:

- 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 arrangements within the authority.

The audit committee annual report

The committee should prepare an annual report that provides assurance to all those charged with governance that it fulfils its purpose and can demonstrate its impact. This is a key output of the committee. The report should be publicly available, supporting the authority's accountability to wider stakeholders, including the public.

Suggested content for the report is set out below.

Alignment of the committee to recommended practice

- The report should briefly outline the extent to which it follows the CIPFA Position Statement in the following areas:
 - The size of the committee.
 - Structure and composition, including the number of independent members.
 - Reporting line and independence from other committees.
 - Whether its terms of reference include all the core functions of the committee.
- Results of the committee's annual evaluation of its effectiveness and assurance over key indicators should be reported. There should be disclosure over areas where the committee has concerns (which could link to the action plan in the AGS) and a statement of what the audit committee has done to escalate their concerns or make recommendations.
- The report should summarise how it has fulfilled its terms of reference and the key issues escalated to the leadership team or other committees during the year.
- The report should summarise the development work that will support the committee members, eg training.

The annual report should be timed to support the annual review of governance and preparation of the AGS. This enables the committee to take stock of the assurances it has received and the extent to which its own performance has contributed to governance arrangements.

The committee should consider how it can improve understanding of its work and raise its profile among other elected members. By improving understanding and engagement, the influence of the committee is likely to grow. **CIPFA has produced a set of frequently asked questions about the work of the committee** that helps communicate its role and the value it brings.

Supporting accountability to the public and stakeholders

The committee has a key role in reviewing the accountability reports of the authority and in helping the authority to discharge its responsibilities. Committee meetings will normally be held in public, except for exempt items, so this also contributes to the accountability of the authority to the public and stakeholders. The audit committee's own annual report will also support accountability to external stakeholders.

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

Supporting internal accountabilities

Through a review of internal and external audit reports, risk management information and other key strategies, the audit committee will hold to account those responsible for implementing recommendations and action plans. In addition, by overseeing the evaluation and improvement of governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority works well.

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

Membership and effectiveness of the audit committee

Choosing elected members for the committee and appointing additional co-opted independent members is an important step in ensuring the committee can carry out its work effectively. This section examines the characteristics needed by members and practical issues. It also considers the importance of evaluating the effectiveness of the committee.

Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills 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
 - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

CIPFA Position Statement 2022

COMMITTEE MEMBERSHIP

Elected representatives and political balance

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

Ideally, the selection of elected members to the audit committee will take account of aptitude and experience. In practice, most authorities have appointed members according to rules on political balance, even though the committee should be non-political. As long as the committee remains an advisory body and not decision making, then full council can waive the political balance requirement. Potentially, this could increase flexibility in the selection of suitable members.

Separation from executive roles

The leader of the cabinet, administration, chair of the policy and resources committee or the elected mayor must not be a member of the audit committee. Care should also be taken where councillors in senior policy-making roles are considered for membership. Where an authority has a cabinet system of governance, including a member of cabinet on the committee is discouraged. If the council has a policy and resources committee, members of this committee should also not sit on the audit committee. In addition, chairs of other policy committees should not be members. This will allow members of the audit committee greater independence in their role and assist in a non-political approach.

If an executive member is included, other compensating arrangements should be made to ensure independence – for example, where there is a majority of independent members or an independent chair of the committee. An executive member should not chair the audit committee.

CIPFA recommends that a period of two years should elapse before a councillor who previously held a senior policy role joins the audit committee.

An overlap with other committee roles such as scrutiny or standards is not necessarily a problem. It can add value by bringing knowledge of activity in these areas into the committee. Those who are members of other committees should take care to not blur their roles.

It is important that there is engagement between those deciding policy matters and the audit committee. This will support audit committee members in staying up to date and help policy makers understand recommendations made by the committee. Examples of engagement could include the members of the executive attending the committee to brief them on the actions they are taking, or the chair of the audit committee attending cabinet or policy and resources to explain audit committee recommendations.

Including co-opted independent members (also known as lay members)

A co-opted independent or lay member is a committee member who is not an elected representative but recruited to join the committee. The objective of including such members is to increase the knowledge and experience base of the committee, reinforcing its independence.

Inclusion of lay members is a legislative requirement for authorities in Wales and for combined authorities in England.

Where there is no requirement to, CIPFA recommends the committee includes two co-opted independent members.

The reasons for CIPFA's recommendation are as follows:

- To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
- To provide continuity outside the political cycle. This is of particular importance where membership of the committee changes annually or because of elections.
- To help achieve a non-political focus on governance, risk and control matters.
- Having two co-opted members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee.
- Having two co-opted members shows a commitment to supporting and investing in the committee.

While including co-opted members can bring real value to the committee, care is needed to ensure that the arrangement works well, both for the co-opted member and for the other committee members. It is essential that the co-opted member receives an adequate induction and ongoing support to provide organisational context and to build working relationships.

The role of the co-opted independent member

The role description for a co-opted member of the committee will be the same as for an elected representative who is a committee member. The only substantial difference will be where the committee has been delegated decision-making responsibilities – although such delegations are not advised by CIPFA – a co-opted member cannot vote on council policy, so will not be able to take part in the decision, though they can, of course, contribute to the discussions prior to the formal decision. The minutes of the meeting should distinguish between a delegated committee decision and a recommendation from the committee to another council body. The latter is part of the role of an advisory committee and the co-opted member should be able to take part fully.

Guiding the audit committee contains additional resources to support the planning for and recruitment of independent members.

Remuneration

It is usual practice to provide some form of payment to the lay committee members and to pay expenses for attending meetings. The allowance recognises the value and time contributed by the member. If an independent member is appointed as the committee chair, an additional sum would be appropriate. Elected members of the committee will be paid allowances and expenses in accordance with the authority's agreed arrangements.

Appointment of the chair

In Wales, a lay member will be recruited specifically to the position of chair, and in other parts of the UK, some authorities have decided on a co-opted independent member for the role. This allows the authority to specify the requirements of the chair during recruitment. In other authorities, the appointment of the committee chair will be decided according to the constitution of the authority. In all cases, it is recommended that the characteristics of an effective chair are considered. These include:

- an ability to plan the work of the committee over the year and beyond
- meeting management skills

- an ability to bring an objective, apolitical attitude and help ensure the apolitical nature of the committee
- 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. When 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.

Knowledge and experience

There is a range of knowledge and experience that audit committee members can bring to the committee that will enable it to perform effectively. No one committee member would be expected to be a specialist in all areas, but there are some core areas of knowledge that committee members will need to acquire.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can guide members on their training needs and support the evaluation of the overall knowledge and skills of the committee. It can also be used when recruiting independent members. It distinguishes 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 entire 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.

Training and development

Audit committees should have access to support to guide them in their roles, help them to understand the key agenda items, and to keep them informed of new developments. *Guiding the audit committee* includes a suggested training and support programme.

New co-opted members may have technical knowledge and experience, but they will still need to understand the local government context with which they may not be familiar. Support should also be provided to help integrate them into the committee and familiarise them with the council's structure and processes.

Audit committee members should review their knowledge and skills – for example, as part of an annual self-assessment process or training needs analysis. As well as shaping the training plan, evidence of the assessment and delivery of training will support the profile of the committee – for example, by including it in the annual report.

DEVELOPING EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to and 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. The CIPFA Position Statement recommends the committee's annual report should include the results of a performance assessment.

Assessing the effectiveness of the committee should consider the following:

- An assessment of whether the committee is operating in accordance with the practices recommended in this guidance and complies with legislation (where appropriate).
- How the committee has fulfilled its terms of reference, including the core functions of the committee.
- The operation of the committee, including the support and training provided and how members have developed their knowledge and experience.
- The committee's effectiveness in terms of impact on the quality of governance, risk management and internal control, together with satisfactory audit arrangements.
- Feedback from those interacting with the committee.

Feedback to committee members

It is normal practice in other sectors for the chair of the audit committee to provide feedback to individual members. In the political environment of an authority, this is more difficult to do. Consideration should be given to facilitating general feedback as part of a wider committee self-assessment. Suggested areas for discussion include:

- attendance
- participation in discussions and questioning
- any training needs
- suggestions for how the committee could develop.

Appendices to support evaluation

CIPFA has developed some improvement tools for the committee to use to inform its evaluation. These are available in Appendices E and F.

The audit committee should report on its effectiveness in its annual report, and the annual report should be timed to support the AGS. More information on the annual report is available in [**Independence and accountability**](#).

Problem solving

Where the committee is experiencing difficulties, the improvement tools may help to identify those areas that need change. For a newly constituted committee, or one with several new members, it can take time to build up effective operations. This is one reason why a comprehensive programme of training and support is needed.

Other difficulties can arise if there is a poor understanding of the role and purpose of the committee among others or if there is insufficient engagement.

Appendix D includes a summary of the difficulties that audit committees sometimes experience and suggestions for addressing them.

Sector and devolved government guidance

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

Guidance area	England (combined authorities)	Wales (local authorities and corporate joint committees)	England and Wales Police	England, Northern Ireland and Scotland (local authorities)
Specific legislation or statutory guidance	<p><u>Cities and Local Government Devolution Act 2016.</u></p> <p><u>Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017.</u></p>	<p><u>Local Government (Wales) Measure 2011</u> as amended by the <u>Local Government (Democracy) (Wales) Act 2013.</u></p> <p><u>Local Government and Elections (Wales) Act 2021.</u></p>	<p><u>Financial Management Code of Practice for the Police Forces of England and Wales (FMCP)</u> (Home Office, 2018).</p>	Not applicable
Establishment of an audit committee	Required	Required	Required It is recommended that this should be a combined body for both PCC and chief constable.	No guidance
Composition of the audit committee	<p>Committees must have at least one independent person as defined by guidance.</p> <p>The committee should reflect the political balance of the constituent authorities as far as is reasonably practical.</p> <p>The committee may not include an officer of the combined authority or a constituent council.</p>	<p>The committee must have lay persons comprise one-third of its members.</p> <p>The member appointed as the committee chair must be a lay person.</p> <p>The deputy chair must not be a member of the executive or an assistant to its executive.</p> <p>The committee must be politically balanced.</p>	Police audit committees should comprise between three and five members who are independent of the PCC and the force.	No guidance

Guidance area	England (combined authorities)	Wales (local authorities and corporate joint committees)	England and Wales Police	England, Northern Ireland and Scotland (local authorities)
Specified functions of the audit committee	<p>Review and scrutinise the authority's financial affairs.</p> <p>Review and assess the authority's risk management, internal control and corporate governance arrangements.</p> <p>Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions.</p> <p>Make reports and recommendations to the combined authority.</p>	<p>Review and scrutinise the authority's financial affairs.</p> <p>Make reports and recommendations in relation to the authority's financial affairs.</p> <p>Review and assess the risk management, internal control, performance assessment and corporate governance arrangements of the authority.</p> <p>Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements.</p> <p>Review and assess the authority's ability to handle complaints effectively.</p> <p>Make reports and recommendations on the authority's ability to handle complaints effectively.</p> <p>Oversee the authority's internal and external audit arrangements.</p> <p>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	No guidance	Oversee external audit arrangements.	Review external audit reports.	No guidance

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 devolved governments. The various regulations impose requirements on 'relevant bodies' – eg a local authority, 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 link for each sector and/or region and the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic updates 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	<u>Accounts and Audit (England) Regulations 2015</u>
Local authorities in Wales	
Relevant government guidance	<u>Accounts and Audit Regulations (Wales) 2014</u> and the <u>Accounts and Audit (Wales) (Amendment) Regulations 2018</u>
Local authorities in Scotland	
Relevant government guidance	<u>Local Authority Accounts (Scotland) Regulations 2014</u>
Local authorities in Northern Ireland	
Relevant government guidance	<u>Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015</u>
Police in England	
Relevant government guidance	<u>Accounts and Audit (England) Regulations 2015</u> (see also the statutory guidance <u>Financial Management Code of Practice for the Police Forces of England and Wales</u> (FMCP) (Home Office, 2018))
Police in Wales	
Relevant government guidance	<u>Accounts and Audit Regulations (Wales) 2014</u> and the <u>Accounts and Audit (Wales) (Amendment) Regulations 2018</u> (see also the <u>FMCP</u>)

Financial reporting deadlines

Amendments affecting the timetables for financial and governance reporting have been introduced to allow for difficulties caused by the COVID-19 pandemic, and in England, difficulties with local audit. Committee members are advised to check the latest positions.

Suggested terms of reference – local authority

INTRODUCTION

This appendix contains suggested terms of reference for local authorities.

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. Additional functions should be included where required.

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. The audit committee's terms of reference and the audit charter should align.

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

The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance [or *insert appropriate governing body*] that those arrangements are effective.

The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

Governance, risk and control

- To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
- To monitor the effective development and operation of risk management in the council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the counter fraud strategy, actions and resources.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

Financial and governance reporting

Governance reporting

- To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

Financial reporting

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- 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.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Arrangements for audit and assurance

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

External audit

- 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.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To consider additional commissions of work from external audit.

- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
- To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

Internal audit

- To approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 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.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- 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:
 - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
 - regular reports on the results of the QAIP
 - 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.
- To consider the head of internal audit's annual report, including:
 - 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)
 - 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).
- To consider summaries of specific internal audit reports as requested.
- 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.
- 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.
- 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).

- 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.

Accountability arrangements

- 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.
- 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.
- To publish an annual report on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.

Suggested terms of reference – police

INTRODUCTION

This appendix contains suggested terms of reference for the audit committee of the PCC and chief constable. The police audit committee must ensure that its terms of reference are in accordance with the FMCP (Home Office, 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. Additional functions should be included where required.

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. The audit committee's terms of reference and the audit charter should align.

SUGGESTED TERMS OF REFERENCE – AUDIT COMMITTEE OF THE PCC AND CHIEF CONSTABLE

Governance

The terms of reference should set out the committee's position as an advisory committee to support the PCC and chief constable.

Statement of purpose

The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance risk and control gives greater confidence to the PCC and chief constable that those arrangements are effective.

The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

Governance, risk and control

- To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
- To monitor the effective development and operation of risk management in the OPCC and force.

- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- To consider the OPCC's and force's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To review the assessment of fraud risks and potential harm to the OPCC and force from fraud and corruption.
- To monitor the counter fraud strategy, actions and resources.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

Financial and governance reporting

Governance reporting

- To review the AGS prior to approval by the PCC and chief constable and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the OPCC's and force's objectives.

Financial reporting

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- To review the annual statements 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.
- To consider the external auditor's reports to the PCC and the chief constable on issues arising from the audit of the accounts.

Arrangements for audit and assurance

To consider the OPCC's and force's framework of assurance and ensure that it adequately addresses their risks and priorities.

External audit

- 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 auditor panel as appropriate.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.

- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To advise on commissions of additional work from external audit.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
- To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

Internal audit

- To recommend for approval the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To review 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.
- To consider significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to recommend and periodically review safeguards to limit such impairments.
- 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:
 - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
 - regular reports on the results of the QAIP
 - 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.
- To consider the head of internal audit's annual report, including:
 - 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)
 - 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).
- To consider summaries of specific internal audit reports as requested.
- 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 OPCC or force, or where there are concerns about progress with the implementation of agreed actions.

- 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.
- 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).
- 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.

Accountability arrangements

- To report to the PCC and chief constable 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.
- To report to the PCC and chief constable 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.
- To publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement.

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 authority's governance structures 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 of the audit committee's activities, including the AGS review, internal and external audit reports and risk registers.
Audit committee role and functions	<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 to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others. It will help the committee undertake a self-assessment and prepare its annual report.
Governance	<ul style="list-style-type: none"> Knowledge of the seven principles as outlined in <u>Delivering Good Governance in Local Government: Framework</u> (CIPFA/Solace, 2016). The requirements of the AGS. How the principles of governance are implemented locally as set out in 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 to adequately support the AGS. The committee will review the AGS and consider how the authority is meeting the principles of good governance. The committee will receive audit reports and information on risks relating to governance.

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit	<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 the charter. • How the role of the head of internal audit is fulfilled. • Details of the most recent external assessment and level of conformance with the standards. • Internal audit's strategy, plan and most recent annual opinion. 	<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 financial reporting	<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. • An understanding of good financial management practice as set out in the CIPFA <u>Financial Management Code</u> (FM Code) and the level of compliance with it. • Knowledge of how the organisation meets the requirements of the role of the CFO as required by <u>The Role of the Chief Financial Officer in Local Government</u> (CIPFA, 2016) and <u>The Role of CFOs in Policing</u> (2021). • An overview of the principal financial risks the authority faces. 	<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 compliance with the FM Code and the role of the CFO and how this is met when reviewing the AGS.
External audit	<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. • Familiarity with the auditor's most recent plan and the opinion reports. • Knowledge about arrangements for the appointment of auditors and quality management undertaken. 	<ul style="list-style-type: none"> • The audit committee will meet with the external auditor regularly and receive their reports and opinions. • Monitoring external audit recommendations and maximising the benefit from the 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	<ul style="list-style-type: none"> Understanding of the principles of risk management, including how it supports 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. Knowledge of the current risk maturity of the organisation and any key areas of improvement. 	<ul style="list-style-type: none"> In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements. Awareness of the major risks the authority faces is necessary to support the review of several 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	<ul style="list-style-type: none"> An understanding of the main areas of fraud and corruption risk that the organisation is exposed to. Knowledge of the principles of good fraud risk management practice in accordance with the <u>Code of Practice on Managing the Risk of Fraud and Corruption</u> (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	<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 (eg code of conduct). 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.
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	<ul style="list-style-type: none"> <u>Effective Scrutiny of Treasury Management</u> 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. <p>See also <u>Treasure your assets</u> (Centre for Governance and Scrutiny, 2017).</p>	<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

More specialist knowledge will add value to the committee, helping to ensure the committee is able to achieve a greater depth of understanding. Including members with specialist knowledge means there is an additional resource to support other members. Specialist knowledge may be demonstrated by professional qualification and prior work experience.

When reviewing the overall knowledge of audit committee members or when planning the appointment of co-opted independent members, it is helpful to look for opportunities to include the following specialisms:

- Accountancy, with experience of financial reporting
- Internal auditing
- Risk management
- Governance and legal
- Expert service knowledge relevant for the organisation
- IT systems and security

CORE SKILLS

As well as technical knowledge, the following skills will enhance an audit committee member's aptitude to be on the committee.

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	Able to focus on material issues and the overall position rather than being side tracked by detail.	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	Able to frame questions that draw out relevant facts and explanations, challenging performance and seeking explanations while avoiding hostility or grandstanding.	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	Ensuring there is a clear plan of action and allocation of responsibility.	The audit committee's outcome 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, the audit committee should seek assurances that appropriate action has been taken.
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice.	The audit committee should seek assurances that planned actions are practical and realistic.
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc.	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	Evaluate information based on evidence presented, avoiding bias or subjectivity.	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	Chair the meetings effectively: summarise issues raised, ensure all participants can contribute, and focus on the outcome and actions from the meeting.	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.

Problem-solving difficulties with the audit committee

It is not uncommon for audit committees to face difficulties or barriers in fulfilling their potential effectiveness. 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 should 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 of 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 details rather than underlying arrangements of governance, risk and control.	<ul style="list-style-type: none"> Agenda management fails to prioritise key areas. The chair does not intervene to keep the 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.

Areas of difficulty	Possible causes	Possible improvement options
The committee lacks focus, and members struggle to gain an overall understanding of their remit.	<ul style="list-style-type: none"> • Committee members have a range of objectives rather than focusing on governance, risk, control and audit matters. • The committee is too large or lacks continuity because of regular attendance by substitutes. • Infrequent attendance by senior officers. 	<ul style="list-style-type: none"> • Training and emphasis on the non-political and strategic focus of the committee. • Reform of the committee structure to reduce membership and remove use of substitutes.
Senior officers do not understand the work of the committee and are not sighted on its output.	<ul style="list-style-type: none"> • The audit committee fails to engage with other committees in 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 – and share the CIPFA guidance (FAQs) more widely.
Elected representatives not directly involved with the committee have little understanding of its work and do not see its output.	<ul style="list-style-type: none"> • Committee recommendations are not directed to appropriate member bodies. • Reporting arrangements are not effective. • Wider induction arrangements do not cover the audit committee. 	<ul style="list-style-type: none"> • Invite newly elected members to attend audit committee meetings. • Review reporting and accountability arrangements. • Prepare an annual report that sets out how the committee has fulfilled its responsibilities. • Share the CIPFA guidance (FAQs).
Recommendations made by the audit committee are not actioned.	<ul style="list-style-type: none"> • A 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 the 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"> • A lack of understanding about the role of the committee. • Difficulty separating the work of the committee from the wider politics of authority. 	<ul style="list-style-type: none"> • Seek feedback from those interacting with the committee or external assessment. • Provide support or training for the chair. • Consider the role of independent members.
A breakdown in the relationship between committee members and the executive, PCC or chief constable/deputy chief constable, or with senior management.	<ul style="list-style-type: none"> • A 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.

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, 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 should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report.

Good practice questions	Does not comply	Partially complies and extent of improvement needed*			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5

Audit committee purpose and governance

1	Does the authority have a dedicated audit committee that is not combined with other functions (eg standards, ethics, scrutiny)?	<input type="checkbox"/>				
2	Does the audit committee report directly to the governing body (PCC and chief constable/full council/full fire authority, etc)?	<input type="checkbox"/>				
3	Has the committee maintained its advisory role by not taking on any decision-making powers?	<input type="checkbox"/>				
4	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?	<input type="checkbox"/>				
5	Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?	<input type="checkbox"/>				
6	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?	<input type="checkbox"/>				
7	Does the governing body hold the audit committee to account for its performance at least annually?	<input type="checkbox"/>				

* Where the committee does not fully comply with an element, three options are available to allow distinctions between aspects that require significant improvement and those only requiring minor changes.

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
8 Does the committee publish an annual report in accordance with the 2022 guidance, including:					
<ul style="list-style-type: none"> compliance with the CIPFA Position Statement 2022 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> results of the annual evaluation, development work undertaken and planned improvements 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> how it has fulfilled its terms of reference and the key issues escalated in the year? 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Functions of the committee					
9 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?					
Governance arrangements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Risk management arrangements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal control arrangements, including:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> financial management value for money ethics and standards counter fraud and corruption 					
Annual governance statement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Assurance framework	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
External audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Over the last year, has adequate consideration been given to all core areas?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 Has the committee met privately with the external auditors and head of internal audit in the last year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5

Membership and support

13 Has the committee been established in accordance with the 2022 guidance as follows?					
<ul style="list-style-type: none"> • Separation from executive 	<input type="checkbox"/>				
<ul style="list-style-type: none"> • A size that is not unwieldy and avoids use of substitutes 	<input type="checkbox"/>				
<ul style="list-style-type: none"> • Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation 	<input type="checkbox"/>				
14 Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?	<input type="checkbox"/>				
15 Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?	<input type="checkbox"/>				
16 Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?	<input type="checkbox"/>				
17 Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?	<input type="checkbox"/>				
18 Is adequate secretariat and administrative support provided to the committee?	<input type="checkbox"/>				
19 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	<input type="checkbox"/>				

Effectiveness of the committee

20 Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	<input type="checkbox"/>				
21 Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?	<input type="checkbox"/>				
22 Are meetings effective with a good level of discussion and engagement from all the members?	<input type="checkbox"/>				
23 Has the committee maintained a non-political approach to discussions throughout?	<input type="checkbox"/>				

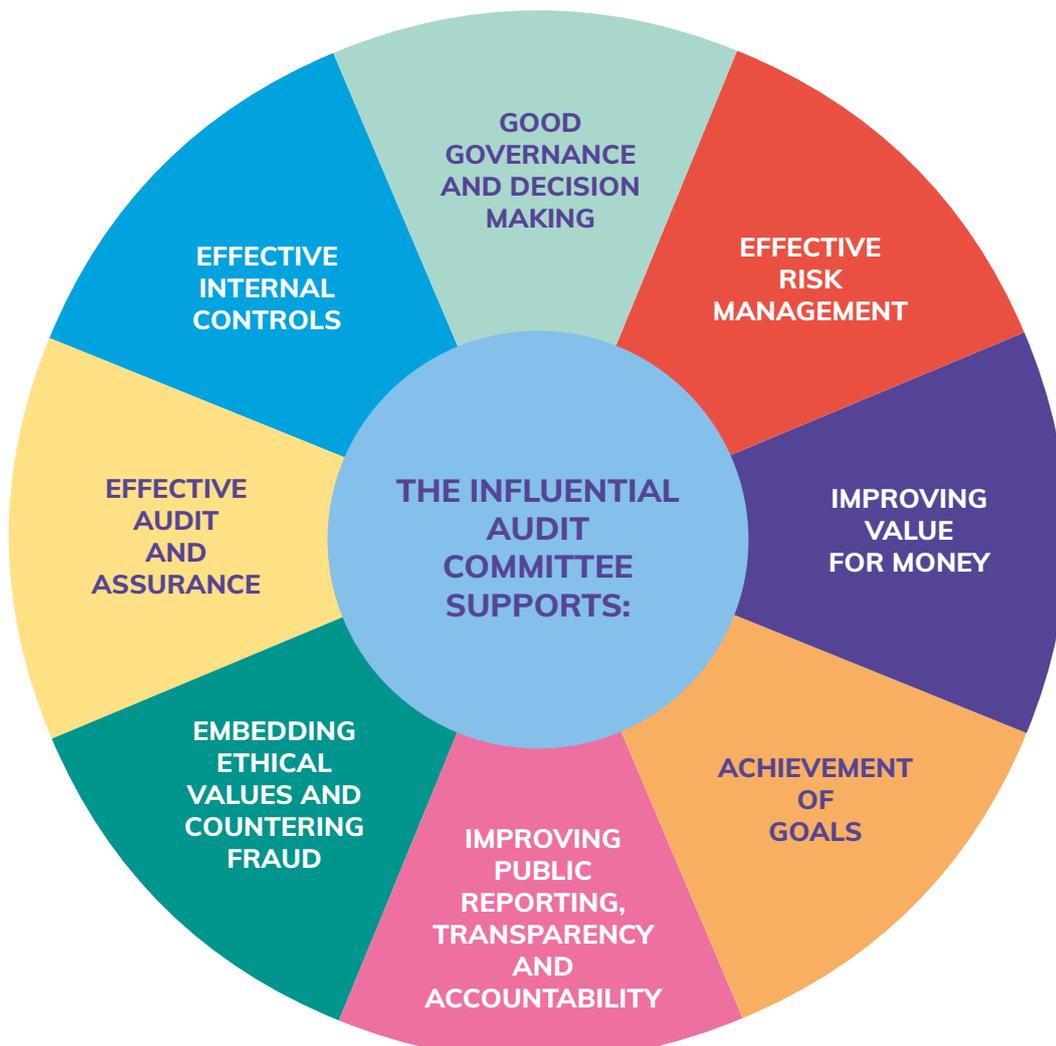
Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
24 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25 Does the committee make recommendations for the improvement of governance, risk and control arrangements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26 Do audit committee recommendations have traction with those in leadership roles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27 Has the committee evaluated whether and how it is adding value to the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28 Does the committee have an action plan to improve any areas of weakness?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29 Has this assessment been undertaken collaboratively with the audit committee members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Subtotal score	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Total score					
Maximum possible score					200**

Evaluating the impact and effectiveness of the audit committee

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'.

The improvement tool below can be used to support a review of effectiveness. It identifies the broad areas where an effective audit committee will have impact.

Figure 1: The influential audit committee



The table includes examples of what the audit committee might do to have impact in each of these areas.

The third area includes key indicators that might be expected to be in place if arrangements are in fact effective. These indicators are not directly within the control of the audit committee, as it is an advisory body. They do provide an indication that the authority has put in place adequate and effective arrangements, which is the purpose of the committee.

Use the tool for discussion and evaluation of the strengths and weakness of the committee, identifying areas for improvement.

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p>Promoting the principles of good governance and their application to decision making.</p>	<ul style="list-style-type: none"> • Supporting the development of a local code of governance. • Providing a robust review of the AGS and the assurances underpinning 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. 	<ul style="list-style-type: none"> • Elected members, the leadership team and senior managers all share a good understanding of governance, including the key principles and local arrangements. • Local arrangements for governance have been clearly set out in an up-to-date local code. • The authority's scrutiny arrangements are forward looking and constructive. • Appropriate governance arrangements established for all collaborations and arm's-length arrangements. • The head of internal audit's annual opinion on governance is satisfactory (or similar wording). 	
<p>Contributing to the development of an effective control environment.</p>	<ul style="list-style-type: none"> • Encouraging ownership of the internal control framework by appropriate managers. • Actively monitoring the implementation of recommendations from auditors. • Raising significant concerns over controls with appropriate senior managers. 	<ul style="list-style-type: none"> • The head of internal audit's annual opinion over internal control is that arrangements are satisfactory. • Assessments against control frameworks such as CIPFA's FM Code have been completed and a high level of compliance identified. • Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement. 	

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
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 maturity or benchmarking. Monitoring improvements to risk management. Reviewing accountability of risk owners for major/ strategic risks. 	<ul style="list-style-type: none"> A robust process for managing risk is evidenced by independent assurance from internal audit or external review. 	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<ul style="list-style-type: none"> Reviewing the adequacy of the leadership team's assurance framework. Specifying the committee's 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. 	<ul style="list-style-type: none"> The authority's leadership team have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies. 	
Supporting effective external audit, with a focus on high quality and timely audit work.	<ul style="list-style-type: none"> Reviewing and supporting external audit arrangements with focus on independence and quality. Providing good engagement on external audit plans and reports. Supporting the implementation of audit recommendations. 	<ul style="list-style-type: none"> The quality of liaison between external audit and the authority is satisfactory. The auditors deliver in accordance with their audit plan and any amendments are well explained. An audit of high quality is delivered. 	
Supporting the quality of the internal audit activity, in particular 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. 	<ul style="list-style-type: none"> Internal audit that is in conformance with PSIAS and LGAN (as evidenced by the most recent external assessment and an annual self-assessment). The head of internal audit and the organisation operate in accordance with the principles of the CIPFA <u>Statement on the Role of the Head of Internal Audit</u> (2019). 	

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p>Aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.</p>	<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. 	<ul style="list-style-type: none"> • Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives. • The authority's arrangements to review and assess performance are satisfactory. 	
<p>Supporting the development of robust arrangements for ensuring value for money.</p>	<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. • Following up issues raised by external audit in their value-for-money work. 	<ul style="list-style-type: none"> • External audit's assessments of arrangements to support best value are satisfactory. 	
<p>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</p>	<ul style="list-style-type: none"> • Reviewing arrangements against the standards set out in the <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (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. 	<ul style="list-style-type: none"> • Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements. 	

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.</p>	<ul style="list-style-type: none"> Working with key members/ the PCC and chief constable to improve their understanding of the AGS and their contribution to it. Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of 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. 	<ul style="list-style-type: none"> The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality. The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion. The authority has published its financial statements and AGS in accordance with statutory guidelines. The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements. 	

OVERALL QUESTIONS TO CONSIDER

- 1 Does the committee proactively seek assurance over the key indicators?
- 2 How proactive is the committee in responding to aspects of governance, risk, control and audit that need change or improvement?
- 3 Are recommendations from the committee taken seriously by those responsible for taking action?

REPORTING RESULTS

The outcome of the review can be used to inform the committee's annual report.

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10/2022

4. Audit Committee

Summary Description:

1. The Audit Committee is a key component of the Council'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 the Audit Committee is to provide independent assurance to the Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council'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.

Membership: 9 Councillors. The Audit Committee shall not be chaired by a Member of the Executive.

Independent Person:

The Audit Committee may choose to appoint an Independent Person (IP) to advise and support the Committee. The IP will not be a member of the Audit Committee but would be entitled to attend all the meetings and associated training of the Committee. The IP can receive and comment on any reports submitted to the Committee, including restricted agenda items.

Functions	Delegation of Functions
<u>Governance, Risk and Control</u> 1. To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.	None
2. To review the Annual Governance Statement (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.	None
3. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.	None
4. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.	None
5. To monitor the effective development and operation of risk management in the Council.	None

6. To monitor progress in addressing risk-related issues reported to the committee.	None
7. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.	None
8. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.	None
9. To monitor the counter-fraud strategy, actions and resources.	None
10. To review the governance and assurance arrangements for significant partnerships or collaborations.	None
<u>Internal audit</u>	None
11. To approve the internal audit charter.	None
12. To review proposals made in relation to the appointment of external providers of internal audit services.	None
13. 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.	None
14. To approve significant interim changes to the risk-based internal audit plan and resource requirements.	None
15. To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.	None
16. 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.	None
17. 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: <ul style="list-style-type: none"> a. Updates on the work of internal audit including key findings, issues of concern and management actions as a result of internal audit work. b. Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP). c. Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) considering whether the non-conformance is significant enough that it must be included in the AGS. 	None

18. To consider the Head of Internal Audit's annual report, including: a. The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement. 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.	None
19. To consider summaries of specific internal audit reports as requested.	None
20. 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.	None
21. 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.	None
22. 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.	None
23. 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.	None
24. To commission work from internal audit.	None
25. To consider the Council's RIPA policy under the Regulation of Investigatory Powers Act 2000 and the Investigatory Powers Act 2016.	None
26. To consider the Council's use of surveillance in accordance with the Regulation of Investigators Powers Act 2000 and the Investigatory Powers Act 2016.	None
<u>External audit</u> 27. 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 Public Sector Audit Appointments (PSAA) or the authority's auditor panel as appropriate.	None
28. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.	None
29. To consider specific reports as agreed with the external auditor.	None
30. To comment on the scope and depth of external audit work and to ensure it gives value for money.	None

31. To commission work from external audit.	None
32. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	None
<u>Financial reporting</u> 33. 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.	None
34. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	None
<u>Accountability arrangements</u> 35. 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.	None
36. 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.	None
37. To publish an annual report on the work of the committee.	None

Quorum: 3 Members of the Committee

Council	How many councillors and independent members are on your Audit Committee?	How many of the councillors are cabinet members?	Who chairs the committee?
Waltham Forest	looking to appoint 2 independent members	None	Administration back bencher
Greenwich	7 (1 independent)	None	Administration back bencher
Harrow & Slough	Harrow 7 / Slough 8 / Barnet 7	None	Slough has had rules on opposition member chairing, which is another CIPFA idea, although now in no overall control and the 3 member strong lib dems got the chair of Audit
Ealing	6 (1 independent)	None	A majority group councillor who is not a member of cabinet
Bexley	11 (0 independent)	1	Members from the Lead Group but not Cabinet Members.
Croydon	7 (1 independent, suitably qualified co-optee)	None	Independent Chair
Brent	7 and 1 independent	None	The Independent member with the Audit focus is the chair.
Camden	10 plus 2 independents	None	Majority Backbencher
Lewisham	6 plus up to 4 independents	None	Back bencher

Newham

8 plus 1 independent

3 Executive members

Independent Co-optee



AUDIT COMMITTEE WORK PLAN 2023/24

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Last updated:	8 th January 2024

AUDIT COMMITTEE WORK PLAN 2023/24

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
17TH JANUARY 2024	Audit Committee Training		
	Control Observations	Tim Harlock/ Julie Lorraine	
22ND JANUARY 2024			
1. Deloitte	Standing item	Jonathan Gooding/ Angus Fish	
2. Internal Audit and Anti-Fraud update 2023/24 Progress update		David Dobbs	
3. Risk Management Report 2023-24 – Progress update & Directorate Risk Register	An update on risks in the Corporate Risk Register.	David Dobbs	
4. Annual Review of Anti-Bribery Policy	Annual review and approval of the Council's Anti-Bribery policy.	David Dobbs	Deferred to Apr 24
5. Treasury Management Report and Mid-Year Review	Progress on the Treasury Management Strategy Statement and the Treasury Prudential Indicators	John Harrison	
6. Treasury Management Strategy Statement, Investment Strategy and Capital Strategy Report for 2023-24		John Harrison	
7. Review of CIPFA Guidance on the management of Audit Committee	CIPFA recommendations	Julie Lorraine/ Janet Fasan	Options paper requested at November 2023 mtg
8. Audit Committee Training Plan	Review and agree items on the training plan for the Committee.	Audit Committee Members	Options paper requested at

AUDIT COMMITTEE WORK PLAN 2023/24

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
	Training 1. The topics for training 2. Who will provide the training – officers or someone external 3. Agree a date/time		November 2023 mtg
9. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	

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AUDIT COMMITTEE WORK PLAN 2023/24

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
21ST MARCH 2024	EXTRAORDINARY MEETING		
1. Deloitte			
2. Statement of accounts for approval	<ul style="list-style-type: none"> • 20/21 approval of accounts • 21/22 approval of accounts • 22/23 approval of accounts 	Julie Lorraine and Tim Harlock	
3. Control Observations			
15TH APRIL 2024	Audit Committee Training		
	Anti-Fraud Investigations		
18TH APRIL 2024			
1. Deloitte			
2.			
3. Annual Internal Audit and Counter-Fraud Strategy & Plan 2024/25	Draft Internal Audit Plan for 2024/25. For review and approval by the Committee.	David Dobbs	
4. Internal Audit and Anti-Fraud update 2023/24 Progress update		David Dobbs	
5. Risk Management Report 2023-24 – Progress update & Directorate Risk Register	An update on risks in the Corporate Risk Register.	David Dobbs	

AUDIT COMMITTEE WORK PLAN 2023/24

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
6. Annual Review of Anti-Bribery Policy		David Dobbs	
7. Draft Terms of reference for 2024/25	Review. To be approved in July 2023.	David Dobbs	
8. Annual Self-Assessment and report of the Audit Committee	Self –Assessment – Report by the Audit Chair to go to Full Council	David Dobbs/ Charlotte Webster	
CARRY FORWARD ITEMS – 2024/25			
1.			
2.			
3.			

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