

audit committees

Practical Guidance for
Local Authorities and Police
2013 Edition



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CHAPTER ONE

Introduction

- 1.1** This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies. The guidance represents CIPFA's view of best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.
- 1.2** It incorporates CIPFA's 2013 Position Statement: Audit Committees in Local Authorities and Police. This statement sets out CIPFA's view of the role and functions of an audit committee. It replaces the Position Statement on Audit Committees in Local Government issued in 2005. Throughout the statement the terms 'authority' and 'authorities' are used to include police and crime commissioners and chief constables as well as local authorities.
- 1.3** The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance. **The purpose of an audit committee is to provide to those charged with governance¹ independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** In this way, they are an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.
- 1.4** Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management. In England, for instance, local authorities are responsible *'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'*² Again, in England, section 151 of the Local Government Act 1972 requires every local authority to *'make arrangements for the proper administration of its financial affairs'*.

1. In police bodies, *'those charged with governance'* are the police and crime commissioner and the chief constable.

2. The Accounts and Audit (England) Regulations 2011 (2011 No. 817).

- 1.5** Regardless of the specific legislative or regulatory framework, the chief financial officer has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the chief financial officer requires an effective audit committee to provide support and challenge, as well, of course, as adequate and effective internal audit. Both these elements are now enshrined in the *Public Sector Internal Audit Standards*³ and the supporting *Local Government Application Note*.⁴
- 1.6** There have been a number of significant developments in governance and audit practice since 2005 which have required audit committees to adapt their remit, notably the introduction of Annual Governance Statements. Legislation and new governance structures affecting police bodies have also had an impact. The aim of this publication is to reflect these changes and to support local authority and police audit committees in performing effectively. This guidance does not cover the future appointment of auditors as the legislation for this is not yet in place.
- 1.7** Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. No single model of audit committee is prescribed; instead, organisations should apply the principle of ‘what works’ while also recognising the need to demonstrate good governance principles and independence from the executive and other political allegiances. In police bodies, legislation limits the role and functions of the audit committee.
- 1.8** The guidance is applicable to all principal local authorities in the UK, and to the new independent audit committees established to support police and crime commissioners and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

3. *Public Sector Internal Audit Standards*, CIPFA, 2012.

4. *Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards*, CIPFA, 2013.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police⁵

- 1** **Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2** **The purpose of an audit committee is to provide to those charged with governance⁶ independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3** **The core functions of an audit committee are to:**
 - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
 - In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.
 - Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
 - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
 - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.

-
5. The scope of this statement includes all local authorities in the UK and the audit committees for police and crime commissioners and chief constables.
 6. In police bodies, *'those charged with governance'* are the police and crime commissioner and the chief constable.
-

- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

4 Audit committees can also support their authorities by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.⁷
- Providing oversight of other public reports, such as the annual report.

5 Although no single model of audit committee is prescribed, all should:

- Act as the principal non-executive, advisory function supporting those charged with governance.⁸
- In local authorities, be independent of both the executive and the scrutiny functions; in police bodies, be independent of the executive or operational responsibilities of the police and crime commissioner or chief constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies
- 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 financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.⁹
- Report regularly on their work, and at least annually report an assessment of their performance.

7. *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)*, CIPFA, 2011.

8. In police bodies, 'those charged with governance' are the police and crime commissioner and the chief constable.

9. While recognising the independence of the chief constable in relation to operational policing matters.

6 Good audit committees are characterised by:

- A membership that is balanced,¹⁰ objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.¹¹
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

10. The political balance of a formal committee of an authority will reflect the political balance of the council. However, it is important to achieve the right mix of apolitical expertise.

11. There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.

CHAPTER THREE

The Purpose of Audit Committees

Extract from the Position Statement

The Purpose of Audit Committees

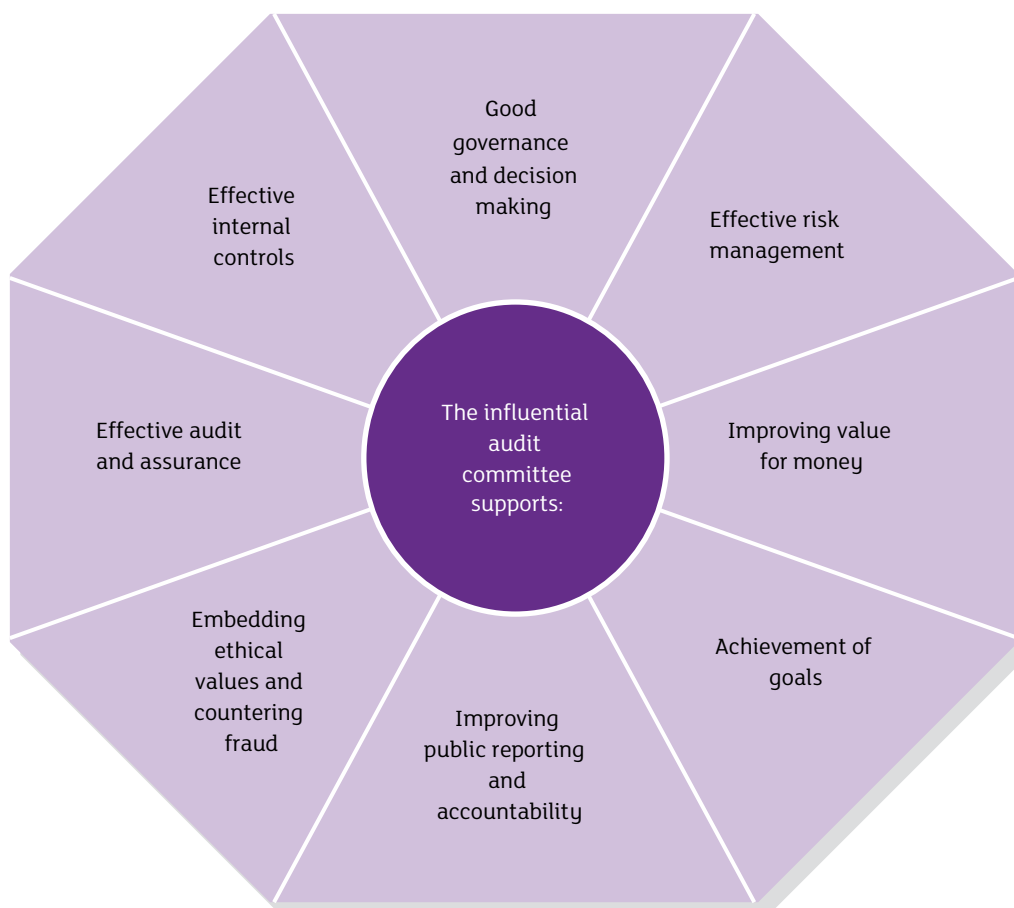
- 1 Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high level resource to support good governance and **strong** public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

- 3.1** Good governance is ultimately the responsibility of those charged with governance, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the chief financial officer and the monitoring officer. The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; in the police service, the committee must remain an advisory body to the police and crime commissioner and the chief constable.¹²
- 3.2** As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where they operate effectively, audit committees add value to their authorities by supporting improvement across a range of objectives, including in particular:
 - promoting the principles of good governance and their application to decision making
 - contributing to the development of an effective control environment
 - supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks

12. New policing arrangements were established by the Police Reform and Social Responsibility Act 2011. Guidance for police audit committees is in the *Financial Management Code of Practice for the Police Forces of England and Wales*, Home Office, 2013.

- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- supporting the quality of the internal audit activity, particularly by underpinning its organisational independence
- aiding the achievement of the authority’s goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and local the community.

This is illustrated below:



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

The Core Functions of an Audit Committee

Extract from the Position Statement

The core functions of an audit committee are to:

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.
- Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
- Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

- 4.1** The core functions that authority audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these

sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance. Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is at Appendix B. The remainder of this chapter provides further background and explanation for particular aspects of the audit committee's core functions.

ANNUAL GOVERNANCE STATEMENT

- 4.2** Audit committees provide essential support for the approval of the Annual Governance Statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.
- 4.3** The good practice governance standard for local government bodies in the UK is the framework¹³ for delivering good governance in local government produced by CIPFA and SOLACE in 2007. The framework is principles based and therefore can also inform the approach to corporate governance adopted by police and crime commissioners and chief constables. CIPFA recommends that each authority develop a local code of governance setting out how it applies the principles.
- 4.4** Legislation requires local authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control.¹⁴ The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive, or equivalents. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGSs of both the police and crime commissioner and the chief constable.
- 4.5** Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For English local authorities, for example, under the 2011 Accounts and Audit Regulations the AGS must be approved by 30 September. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it again in September.
- 4.6** To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:
- Review the local code of governance and any changes to the arrangements in the year. Note it is not the responsibility of the audit committee to establish any local code, but it should be consulted.
 - Ensure that the AGS is underpinned by a framework of assurance (see the detailed section on assurance planning).

13. *Delivering Good Governance in Local Government: Framework*, CIPFA, 2007.

14. See Appendix A for details of the legislative requirements.

- Over the course of the year, receive reports and assurances over the application of the governance framework in practice.
 - Monitor implementation of action plans or recommendations to improve governance arrangements.
 - Consider how the organisation applies governance principles in practice during the committee's review of other agenda items.
- 4.7 Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in chapter six.

INTERNAL AUDIT

- 4.8 The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, local authority internal auditors¹⁵ have had to follow the *Public Sector Internal Audit Standards* (PSIAS) and the *Local Government Application Note* (LGAN). They highlight the importance of effective internal audit to those in the organisation who are responsible for governance.
- 4.9 In its adoption of PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by PSIAS. It is for these reasons that in the LGAN CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements. The terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set out in the internal audit charter, the formal document that defines the internal audit activity's purpose, authority and responsibility.¹⁶
- 4.10 The roles of the audit committee in relation to internal audit are to:
- oversee its independence, objectivity, performance and professionalism

15. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2011, the Accounts and Audit (Wales) Regulations 2005, section 95 of the Local Government (Scotland) Act 1973 and the Amendment to the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 must make provision for internal audit in accordance with the *Public Sector Internal Audit Standards* as well as the *Local Government Application Note*.

16. The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. It is a requirement of the *Public Sector Internal Audit Standards*.

- support the effectiveness of the internal audit process
- promote the effective use of internal audit within the assurance framework.

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

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

Oversee independence, objectivity, performance and professionalism

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

- to review or approve the following:¹⁷
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- to consider the appointment and removal of the head of internal audit
- 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 receive the annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with PSIAS and the LGAN
 - the results of the quality assurance and improvement programme.
- To discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

4.13 The head of internal audit or chief internal auditor (referred to in PSIAS and the LGAN as ‘chief audit executive’) should have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the Quality Assurance and Improvement Programme at least once every five years.

Support the effectiveness of the internal audit process

4.14 The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities are core parts 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 reports on instances where the internal audit function does not conform to PSIAS or the LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS.

17. For a full explanation of the professional standards, refer to the *Public Sector Internal Audit Standards* and the *Local Government Application Note*.

- 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 Quality Assurance and Improvement Programme.

Promote the effective use of internal audit within the assurance framework

- 4.15** The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:
- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.
 - Receiving reports outlining the action taken where the chief audit executive has concluded that management has accepted a level of risk that may be unacceptable to the authority.
 - When considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.
- 4.16** Those audit committees that operate under the Accounts and Audit Regulations in England and Northern Ireland must conduct a review of the effectiveness of their internal audit annually.¹⁸ The Scottish Government has consulted on new regulations that, if agreed, will also require a review of the effectiveness of internal audit.¹⁹ The audit committee should take into account internal audit's Quality Assurance and Improvement Programme when conducting such a review.
- 4.17** The *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations*²⁰ states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

18. The Accounts and Audit (England) Regulations 2011, Part 2, section 6, regulation (3): '*A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.*' Regulation (4): '*The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 4(3), by the committee or body referred to in that paragraph.*'

The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006, regulation 3A (3): '*A local government body shall, at least once in each financial year, conduct a review of the effectiveness of its system of internal audit.*' Regulation (4): '*The findings of the review referred to in paragraph (3) shall be considered, as part of the consideration of the system of internal control referred to in paragraph (3) of regulation 2A, by the committee or meeting referred to in that paragraph.*'

19. The Local Authority Accounts (Scotland) Regulations 2013 consultation draft, July 2013.

20. *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations*, CIPFA, 2010.

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

RISK MANAGEMENT

- 4.19** In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Were a local authority to establish a separate risk committee, then its roles and responsibilities would need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the *Financial Management Code of Practice* to advise the police and crime commissioner and the chief constable on the adoption of appropriate risk management arrangements.

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

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

First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:

- Overseeing the authority's risk management policy and strategy, and their implementation in practice.
- Overseeing the integration of risk management into the governance and decision-making processes of the organisation.
- Ensuring that the AGS is an adequate reflection of the risk environment.

Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:

- Reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine and challenge and support the risk assessment process to ensure consistency.
- Reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately.
- Seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored.
- Following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.

Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:

- Overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking.
- Reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans.
- Monitoring action plans and development work in the field of risk management practice.

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

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

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

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

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

4.25 Having a clear assurance framework in place will support the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements.

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

VALUE FOR MONEY AND BEST VALUE

4.27 Making best use of resources is a key objective for all local authorities and it is part of the CIPFA/SOLACE Good Governance Framework. One of the supporting principles of Principle 1 of this framework is *'ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money'*.

- 4.28** In the police sector, the chief constable has statutory responsibility to secure value for money and the police and crime commissioner to hold the chief constable to account for this duty.²¹ The audit committee's role is to support both police and crime commissioner and chief constable to fulfil their responsibilities through the assurance process.
- 4.29** Assurance over value for money should focus on both the arrangements to ensure value for money and the progress in achieving value for money. An authority should have in place arrangements to obtain assurance over its performance against value for money objectives and strategies. The role for the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against value for money objectives.
- 4.30** The role of the audit committee is most likely to focus on whether the authority's overall approach to value for money is in line with governance objectives and to receive assurances on this to underpin the AGS. CIPFA issued an Addendum to the CIPFA/SOLACE Good Governance Framework²² to update the requirements for the AGS. The Addendum emphasises that the AGS should be focused on outcomes and value for money.
- 4.31** One specific area of activity for the committee should be consideration of the external audit opinion on value for money as set out in the codes of audit practice adopted by national audit bodies.²³ In addition, the audit committee should consider what other assurances are available in relation to identified value for money risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

- 4.32** Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter-fraud arrangements also link to the ethical standards for members and officers that the public expects.
- 4.33** The audit committee role should be to have oversight of the authority's strategy to counter fraud – assessing whether it meets recommended practice and governance standards and complies with legislation such as the Bribery Act 2010. *Managing the Risk of Fraud*²⁴ sets out the counter-fraud standards for public sector organisations; sector-specific strategies such as *Fighting Fraud Locally*²⁵ should also be considered. The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider

21. Section 2, section 3 and section 35 of the Police Reform and Social Responsibility Act 2011.

22. *Delivering Good Governance in Local Government: Framework (Addendum)*, CIPFA, 2012

23. England: audit opinion on value for money as defined by the Audit Commission. Scotland: reviews of best value. Wales: Wales Audit Office annual improvement reports. Northern Ireland: review of arrangements for the use of resources.

24. *Managing the Risk of Fraud: Actions to Counter Fraud and Corruption (Red Book 2)*, CIPFA, 2008. A revised version will be published in 2014.

25. *Fighting Fraud Locally: The Local Government Fraud Strategy*, National Fraud Authority, 2011. See also *Protecting the Public Purse* and associated fraud briefings, Audit Commission, 2013.

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

- reviewing the counter-fraud strategy and considering whether it meets recommended practices
- championing good counter-fraud practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community
- reviewing the annual counter-fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter-fraud function
- overseeing any major areas of fraud identified and monitoring actions plans to address control weaknesses.

4.34 The Addendum to the CIPFA/SOLACE Good Governance Framework recommends that the adequacy of counter-fraud arrangements are evaluated and reported on in the AGS. The audit committee should have sight of the assurances underpinning this assessment.

EXTERNAL AUDIT

4.35 The audit committee's role should include receiving and considering the work of the external auditor. The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work in order to monitor the action to be taken. The committee should contribute to the authority's response to the annual audit letter.

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

- Expressing an opinion on the selection and rotation of the external auditor.
- Reviewing how external audit plans fit with the agreed engagement and being satisfied that the planned resources and team composition have the required seniority, expertise and experience to undertake the engagement.
- Assessing the effectiveness of the external audit process, including whether the external auditor has a good understanding of the authority, how the external auditor has met the audit plan, and feedback from key people such as the responsible financial officer and the head of internal audit.
- Reporting to full council or the police and crime commissioner or chief constable or other body as appropriate on the results of the review.
- Supporting the implementation of recommendations from the external auditor.
- Reviewing the authority's policy on non-audit work by external audit and details of any non-audit work actually undertaken.

4.37 In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit – for example, the quality reports from the Financial Reporting Council.

- 4.38** There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.
- 4.39** Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

- 4.40** Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting*²⁶ issued by CIPFA. The responsible financial officer must sign the statements by 30 June to confirm that they have been properly prepared and are ready for audit.²⁷ The local authority will formally approve the financial statements after the completion of the external audit.
- 4.41** The date by which the statements must be published is set down by government regulations. Currently it is 30 September. CIPFA has recommended that it is good practice for the accounts to be reviewed prior to the commencement of the external audit, along with the AGS, rather than waiting until September. Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:
- reviewing the explanatory foreword to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
 - reviewing whether the foreword is readable and understandable by a lay person
 - identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
 - monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
 - reviewing the suitability of accounting policies and treatments
 - seeking explanations for changes in accounting policies and treatments
 - reviewing major judgemental areas, eg provisions
 - seeking assurances that preparations are in place to facilitate the external audit.
- 4.42** Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

26. *Code of Practice on Local Authority Accounting in the United Kingdom*, CIPFA, annual.

27. The Accounts and Audit (England) Regulations 2011.

- 4.43** In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

PARTNERSHIP GOVERNANCE

- 4.44** Authorities commonly have a wide range of partnership 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. Ensuring the adequacy of governance and risk management over such arrangements can be complicated but is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons the role of the audit committee should be clearly defined.
- 4.45** The audit committee's role can be to consider the assurance available on whether the partnership arrangements are satisfactorily established and are operating effectively. 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, to ensure transparency of decision making and to ensure standards of probity are maintained.
- 4.46** Where an authority is developing new partnership arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.
- 4.47** The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered.
- 4.48** In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter six considers the implications of partnerships for audit committee independence and accountability.

Possible Wider Functions of an Audit Committee

Extract from the Position Statement

Audit committees can also support their authorities by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
- Providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

- 5.1** Occasionally the audit committee may be requested to consider a review of a service, a proposed policy, or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:
- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
 - providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.
- 5.2** In each case, the aim of the committee should be to make recommendations in line with its role set out in CIPFA's 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.

ETHICAL VALUES

5.3 Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This feature has to be reflected in the role of the audit committee in local authorities and police bodies. In addition, public sector entities have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should seek to be satisfied that there are adequate arrangements to achieve this.

5.4 All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. The description of these was updated in 2013. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

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

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

The audit committee may, therefore, have responsibility for reviewing ethical standards issues.

5.5 In addition, the audit committee may have a wider role, depending on what other committees exist and what their role in relation to ethical governance is. Specifically, regard should be had to the role and responsibilities of a standards committee, where there is one. Where the authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Under the Localism Act 2011, English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place.

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

TREASURY MANAGEMENT

5.7 The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however, that many authorities have nominated the audit

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

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

- 5.8** Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Treasury Management Code of Practice, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Treasury Management Code of Practice clauses as these are executive and decision-making roles rather than a scrutiny role.
- 5.9** Where the committee is undertaking scrutiny then this is likely to involve the following actions:
- Developing greater awareness and understanding of treasury matters among the committee members.
 - Reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory.
 - Receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Treasury Management Code of Practice 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).
- 5.10** Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

CHAPTER SIX

Independence and Accountability

Extract from the Position Statement

Although no single model of audit committee is prescribed, all should:

- Act as the principal non-executive, advisory function supporting those charged with governance.
- In local authorities, be independent of both the executive and the scrutiny functions; in police bodies, be independent of the executive or operational responsibilities of the police and crime commissioner or chief constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent body
- 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.²⁸
- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.
- Report regularly on their work, and at least annually report an assessment of their performance.

- 6.1** CIPFA is keen that each local authority or police body adopt an audit committee model that achieves its purposes and functions successfully by reflecting local circumstances. As a consequence, CIPFA does not want to prescribe a single model that becomes the basis for compliance, but rather to focus on the factors that promote effectiveness.
- 6.2** For a local authority, CIPFA's judgement is that the audit committee should report directly to council rather than to another committee, as the council itself most closely matches the body of *'those charged with governance'*. In the police sector, both the police and crime

28. See paragraph 6.29.

commissioner and chief constable are separate corporations sole and so each will fulfil the role of *'those charged with governance'*.

- 6.3** In establishing the audit committee within the governance structure of the authority, three key elements should be considered:
- any statutory guidance applicable for the sector
 - independence from the executive and political allegiances
 - a practical assessment of 'what works' in the local context.
- 6.4** Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

- 6.5** The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A.
- 6.6** While there is broad similarity in the guidance across the United Kingdom, one cause of differences is the existence of a specific statutory requirement for audit committees in Wales and of statutory guidance underpinning the operation of police audit committees in England and Wales.
- 6.7** Local authorities in Wales have a clear statutory role established by the Local Government (Wales) Measure 2011. Statutory guidance²⁹ made under section 85 of the measure provides guidance on the implementation of the measure's requirements. Local authorities in Wales must have regard to this guidance. The Home Office *Financial Management Code of Practice for the Police Forces of England and Wales*³⁰ requires police and crime commissioners and the chief constables to establish an independent audit committee. This is an advisory committee to both the police and crime commissioner and the chief constable, both of whom are established as a corporation sole.
- 6.8** Other regulations include the appropriate accounts and audit regulations for England, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

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

29. *Statutory Guidance from the Local Government Measure 2011*, Welsh Government, 2012.

30. *Financial Management Code of Practice for the Police Forces of England and Wales*, Home Office, 2013.

Other relevant recommendations

- 6.10** In her report for the financial year 2011/12,³¹ the Chief Local Government Auditor of the Northern Ireland Audit Office commented that all councils now had an established audit committee, although in 11 cases the committee was a sub-committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

INDEPENDENCE

- 6.11** While stand-alone audit committees reporting to full council are the norm in the UK, a significant proportion remains where other arrangements are made.
- 6.12** CIPFA's 2011 survey of audit committees³² found that, across the UK, 19% of councils had audit committees either combined with other committees or operating as sub-committees. Arrangements included audit committees reporting to the cabinet or mayor or the combination of audit committee functions with scrutiny committees or standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.
- 6.13** Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council (*those charged with governance*), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.
- 6.14** Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.
- 6.15** Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.
- 6.16** However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter seven includes a section on the composition of the audit committee.

31. *The Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2012*, Report by the Chief Local Government Auditor, Northern Ireland Audit Office, 2012.

32. CIPFA Survey on Audit Committees in Local Government 2011.

JOINT AUDIT COMMITTEES

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

Case Study: Joint Audit Committee, Babergh and Mid-Suffolk District Councils

The councils have adopted a joint audit committee. Representatives from both councils sit on the committee and it has joint chairs, one from each council.

The committee meets alternately at the different locations with the appropriate chair for each meeting. Responsibility for agenda management is shared.

AUDIT COMMITTEES IN PARTNERSHIP

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

Case Study: Rotherham Audit Committee

In Rotherham, the council's audit committee works with members of the audit committees of partner organisations including police, fire, probation and the NHS in a Rotherham Audit Committee.

The committee, which has existed since 2010, meets two or three times each year and does not require any significant amount of administration. It has enabled the partner organisations to assess the governance implications of topical developments, including the welfare reforms, the Localism Act, NHS changes including the transfer of public health services, and developments in the police and probation services.

The outcome is a greater awareness across all partners' audit committee representatives of current and emerging issues, and the ability for the individual organisations to establish complementary plans to reduce risks identified. Management of the risks is a regular item on Rotherham Audit Committee agendas.

DECISION-MAKING POWERS AND DELEGATIONS

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

- 6.20** The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights in chapter seven. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.
- 6.21** Police audit committees in England and Wales can never be delegated decision-making or approval powers by the police and crime commissioner or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

- 6.22** The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.
- 6.23** Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Supporting the audit committee and key relationships

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

- 6.25** A number of officers will have an important relationship with the committee. The chief financial officer (CFO) role³³ and the remit of the audit committee are closely aligned and complementary. The *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* emphasises the importance of having an effective audit committee to support the CFO.³⁴ The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.
- 6.26** The head of internal audit should also have a good relationship with the committee. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings. The *CIPFA Statement on the Role of the Head of Internal Audit* has incorporated this into the core principles. To be effective in their role:
- The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.*³⁵
- 6.27** To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:
- chief executive or equivalent – for the AGS and other governance-related issues
 - monitoring officer – for the AGS and ethical governance issues
 - risk management officer – for discussions around the risk registers and risk reports
 - head of counter-fraud – for agenda items on fraud risks and counter-fraud activity

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33. Police audit committees will need to work with the CFO of both the police and crime commissioner and the chief constable.
34. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively. *CIPFA Statement on the Role of the Chief Financial Officer in Local Government*, CIPFA, 2010; *CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable*, CIPFA, 2012.
35. The HIA's relationship with the audit committee and especially the chair is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

- service senior managers – for audit, risk, or governance discussions on their service areas³⁶
 - scrutiny or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.
- 6.28** It may be appropriate to consider how the audit committee operates outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed.
- 6.29** Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector. The aim of this is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

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

Supporting the authority's accountability to the public and stakeholders

- 6.31** The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.
- 6.32** A wider group of stakeholders such as partner organisations or the police and crime panel may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publication of agendas and minutes will support wider communication and transparency.

36. While recognising the operational independence of the chief constable on operational policing matters.

Supporting accountability within the authority

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

Holding the audit committee to account

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

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

6.35 The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account.

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

Membership and Effectiveness

Extract from the Position Statement

Good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

- 7.1** The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.
- 7.2** Audit committees in Welsh local authorities and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee:
- The composition of the audit committee for Welsh local authorities is subject to the Local Government Measure which requires local authority audit committees to have at least one lay member. Up to one third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
 - Police audit committees should comprise between three and five members who are independent of the police and crime commissioner and the force.³⁷
- 7.3** In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees.³⁸ Sixteen of the 26 Northern Ireland authorities had independent members as at March 2012.

37. *Financial Management Code of Practice for the Police Forces of England and Wales*, Home Office, 2013.

38. *The Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2012*, Report by the Chief Local Government Auditor, Northern Ireland Audit Office, 2012.

- 7.4** In other sectors, the audit committee can be small – fewer than six members.³⁹ In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number. There is no consistency in the local government sector on the size of the committee.⁴⁰
- 7.5** Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.
- 7.6** Membership from executive members on the committee has been discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet or administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.
- 7.7** Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance.⁴¹ One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.
- 7.8** Co-option of independent members may be beneficial to the audit committee. It is a requirement for police audit committees and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:
- to bring additional knowledge and expertise to the committee
 - to reinforce the political neutrality and independence of the committee

39. *Guidance on Audit Committees* (Financial Reporting Council, 2012) says audit committee should be at least three non-executive directors. The *Audit and Risk Assurance Committee Handbook* (HM Treasury, 2013) states that the committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee. Executive members are explicitly excluded.

40. CIPFA's 2011 survey of audit committees found that size of the committee ranged from four or fewer to 15 or more, although 47% had between six and eight members, with 19% having fewer and 34% having more.

41. Section 15 of the Local Government and Housing Act 1989.

- to maintain continuity of committee membership where membership is affected by the electoral cycle.

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

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports.

7.10 These factors should be taken into account when developing the committee structure.

Voting rights of independent members

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

Recruitment process

7.12 The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked.

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

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

KNOWLEDGE AND EXPERIENCE

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

- 7.16** Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.
- 7.17** The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

Skills and competencies

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

Self-assessment and training

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

Role of the chair

- 7.21** Selecting the chair of the committee is likely to be undertaken annually. Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:
- ability to plan the work of the committee over the year and beyond
 - skills of managing meetings
 - ability to bring an objective, apolitical attitude
 - 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.

7.22 The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that providing continuity of the chair can help the committee to develop greater knowledge and expertise.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

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

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

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

7.26 The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements. Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

7.27 It is not uncommon for audit committees to face difficulties or barriers to 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 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.	Where turnover of membership is very frequent, it will be difficult for the committee to build up experience.	Enhanced level of support and training to members will be required. To enhance continuity the authority could consider recruitment of independent members.
Audit committee members do not feel confident in their knowledge of particular areas.	Lack of training and support.	Enhanced level of support and training to members.
Independent members lack knowledge of the organisation and connections with key managers.	Poor induction. Limited opportunities to engage with the organisation outside formal meetings.	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.	Lack of experience or skill in managing meetings by the chair. Committee members are unsure about their role. Poor support from the committee secretary.	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 guidance to committee members on their role. Improve committee support.

Areas of Difficulty	Possible Causes	Possible Improvement Options
The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues.	<p>Agenda management fails to prioritise key areas.</p> <p>The chair does not intervene to keep focus at an appropriate level.</p>	<p>Review the process of agenda development.</p> <p>Review the terms of reference and provide training.</p> <p>The chair seeks feedback from meeting participants.</p> <p>Provide training to the chair on meetings.</p>
The audit committee is little known or understood in many parts of the authority.	The audit committee fails to engage with many parts of the authority. Attendance is often limited to the head of finance and the head of internal audit.	Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed.
The audit committee is little known or understood by those not on the committee.	Lack of feedback or reporting arrangements.	<p>Invite newly elected members to attend audit committee meetings.</p> <p>Review reporting arrangements.</p> <p>Consider an annual report that sets out how the committee has fulfilled its responsibilities.</p>
Recommendations made by the audit committee are not actioned.	<p>Poor relationship between the committee and the executive or senior officers.</p> <p>The audit committee's recommendations are not adequately aligned to organisational objectives.</p>	<p>A senior officer provides internal facilitation to support improved relationships.</p> <p>Improve knowledge and skills among audit committee members.</p> <p>Ensure better engagement with appropriate managers or the executive at an earlier stage.</p>

Areas of Difficulty	Possible Causes	Possible Improvement Options
The audit committee fails to make recommendations or follow up on issues of concern.	<p>A weak or inexperienced chair.</p> <p>Members are inexperienced or do not fully understand their role.</p> <p>Poor briefing arrangements prior to meetings.</p> <p>Committee reports fail to adequately identify the action required by the committee.</p>	<p>Provide guidance and support.</p> <p>Improve briefing to the chair prior to the meeting.</p> <p>Ensure reports contain clear recommendations.</p>
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role.	<p>The terms of reference do not adequately scope the work of the committee.</p> <p>Misunderstanding about the role of the committee.</p> <p>Inadequate guidance from committee secretary to the chair on its role.</p>	<p>Review the terms of reference and provide training and guidance.</p>
Political points of view interfere with the work of the audit committee.	<p>Lack of understanding about the role of the committee.</p>	<p>Seek feedback from those interacting with the committee or external assessment.</p>

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

- 7.28** The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefing or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required. Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.
- 7.29** Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

APPENDIX A

Sector and Devolved Government Guidance

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

Guidance area	England Local authorities	Wales Local authorities	England and Wales Police	Scotland Local authorities	Northern Ireland Local authorities
Establishment of audit committee.	No guidance.	Required.	Required. It is recommended that this should be a combined body for both PCC and CC.	No guidance.	No guidance.
Composition of the audit committee.	No guidance.	Committees must have at least one lay member. Up to one third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.	Police audit committees should comprise between three and five members who are independent of the police and crime commissioner and the force.	No guidance.	No guidance.
Specified functions of the audit committee.	No guidance.	<ul style="list-style-type: none"> a) Review and scrutinise the authority's financial affairs. b) Make reports and recommendations in relation to the authority's financial affairs. c) Review and assess the risk management, internal control and corporate governance arrangements of the authority. d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements. e) Oversee the authority's internal and external audit arrangements. f) Review the financial statements prepared by the authority. 	Consider the internal and external audit reports of both the police and crime commissioner and the chief constable. Advise the police and crime commissioner and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices.	No guidance.	No guidance.

Guidance area	England Local authorities	Wales Local authorities	England and Wales Police	Scotland Local authorities	Northern Ireland Local authorities
Responsibilities of the audit committee in relation to external audit.	No guidance.	Oversee external audit arrangements.	Review external audit reports.	No guidance.	No guidance.
Specific guidance.	N/A	<i>Local Government (Wales) Measure 2011; Statutory Guidance from the Local Government Measure 2011</i> , Welsh Government, 2012.	Statutory guidance: <i>Financial Management Code of Practice for the Police Forces of England and Wales</i> , Home Office, 2013.	N/A	N/A

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

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

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

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

Local authorities in England

Relevant government guidance	The Accounts and Audit (England) Regulations 2011.
Governance and risk management arrangements	Regulation 4 requires that: <i>'The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'</i>
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems. Regulations 7 and 8 relate to the statement of accounts.
Review of effectiveness of system of internal control	Regulation 4 requires members of the body to consider the findings of the review of the effectiveness of the body's system of internal control.
Approval of Annual Governance Statements	Regulation 4 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control.
Internal audit	Regulation 6 requires a relevant body to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices.
Review of effectiveness of internal audit	Regulation 6 requires an annual review of the effectiveness of its system of internal audit. The findings of the review of the effectiveness of its internal audit must be considered as part of the consideration of the system of internal control by the same committee or body that looks at the system of internal control.

Local authorities in Wales

Relevant government guidance	The Accounts and Audit Regulations (Wales) 2005 and amendments 2010. Guidance on the Accounts and Audit (Wales) Regulations 2005 (incorporating amending regulations up to and including March 2010), Welsh Assembly Government, March 2010.
Governance and risk management arrangements	Regulation 4 (2005) requires that a local government body is responsible for putting in place a sound system of internal control which facilitates the effective exercise of that body's functions and which includes: a) arrangements for the management of risk, and b) adequate and effective financial management.
Financial affairs and financial statements	Regulation 5 (2005) relates to accounting records and control systems. Regulation 7 (as amended in 2010) relates to the statement of accounts.
Review of effectiveness of system of internal control	Regulation 4 (2005) requires that the body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control.
Approval of Annual Governance Statements	The 2010 Guidance (paragraph 7) requires councils to adopt CIPFA's <i>Delivering Good Governance in Local Government: Framework</i> and to produce an AGS in accordance with it.
Internal audit	Regulation 6 (2005) requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices.
Review of effectiveness of internal audit	There is no requirement under the Accounts and Audit Regulations for Wales. However, the Local Government Measure has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements.

Local authorities in Scotland

Relevant government guidance	The Local Authority Accounts (Scotland) Regulations 2013 have been issued in draft and are awaiting final approval.
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Local authorities in Northern Ireland

Relevant government guidance	<p>The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.</p> <p>The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006.</p> <p>Guidance on the Local Government (Accounts and Audit) Regulations Northern Ireland 2006 (LG/04/08) issued in 2008 by the Department of the Environment.</p>
Governance and risk management arrangements	<p>Regulation 2a (2006 amendment) requires a local government body to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk.</p>
Authority's financial affairs and financial statements	<p>Regulation 3 (2006) relates to accounting records and control systems.</p> <p>Regulations 4, 5 and 6 (2006) relate to the statement of accounts.</p>
Review of effectiveness of system of internal control	<p>Regulation 2a (2006 amendment) requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control.</p>
Approval of Annual Governance Statements	<p>Regulation 2a (2006 amendment) requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control.</p> <p>The 2008 guidance requires local authorities in Northern Ireland to publish an AGS in accordance with the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> to meet regulation 2a.</p>
Internal audit	<p>Regulation 3a (2006 amendment) requires the local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.</p>
Review of effectiveness of internal audit	<p>Regulation 3a (2006 amendment) requires an annual review of the effectiveness of its system of internal audit. The findings of the review of the effectiveness of its internal audit must be considered as part of the consideration of the system of internal control by the same committee or body that looks at the system of internal control.</p>

Police in England

Relevant government guidance	The Accounts and Audit (England) Regulations 2011. See also statutory guidance: <i>Financial Management Code of Practice for the Police Forces of England and Wales</i> , Home Office, 2013.
Governance and risk management arrangements	Regulation 4 requires that: <i>'The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'</i>
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems. Regulations 7 and 8 relate to the statement of accounts.
Review of effectiveness of system of internal control	Regulation 4 requires members of the body to consider the findings of the review of the effectiveness of the body's system of internal control.
Approval of Annual Governance Statements	Regulation 4 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control.
Internal audit	Regulation 6 requires a relevant body to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices.
Review of effectiveness of internal audit	Regulation 6 requires an annual review of the effectiveness of its system of internal audit. The findings of the review of the effectiveness of its internal audit must be considered as part of the consideration of the system of internal control by the same committee or body that looks at the system of internal control.

Police in Wales

Relevant government guidance	The Accounts and Audit Regulations (Wales) 2005 and amendments 2010. Guidance on the Accounts and Audit (Wales) Regulations 2005, March 2010, Welsh Assembly Government. The Accounts and Audit (Wales) (Amendment) Regulations 2013. See also statutory guidance: <i>Financial Management Code of Practice for the Police Forces of England and Wales</i> , Home Office, 2013.
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Governance and risk management arrangements

Regulation 4 (2005) requires that a local government body is responsible for putting in place a sound system of internal control which facilitates the effective exercise of that body's functions and which includes:

- a) arrangements for the management of risk; and
- b) adequate and effective financial management.

Authority's financial affairs and financial statements

Regulation 5 (2005) relates to accounting records and control systems.

Regulation 7 (as amended in 2010) relates to the statement of accounts.

Review of effectiveness of system of internal control

Regulation 4 (2005) requires that the body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control.

Approval of Annual Governance Statements

The 2010 Guidance (paragraph 7) requires authorities to adopt CIPFA's *Delivering Good Governance in Local Government: Framework* and to produce an AGS in accordance with it.

Review of effectiveness of internal audit

Regulation 6 (2005) requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices.

Suggested Terms of Reference – Local Authorities and Police

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the *Financial Management Code of Practice* and remain an advisory body.

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

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Statement of purpose

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

Governance, risk and control⁴²

- 3 To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

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

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

Internal audit

- 12 To approve the internal audit charter.
- 13 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 14 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.
- 15 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 16 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 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:
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- 18 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality

Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.

- b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- 19 To consider summaries of specific internal audit reports as requested.
 - 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.
 - 21 To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
 - 22 To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations (see Appendix A).
 - 23 To support the development of effective communication with the head of internal audit.

External audit

- 24 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 25 To consider specific reports as agreed with the external auditor.
- 26 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 27 To commission work from internal and external audit.
- 28 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 29 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.
- 30 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 31 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.

- 32 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.

SUGGESTED TERMS OF REFERENCE – POLICE

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

Statement of purpose

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

Governance, risk and control

The committee will, in relation to the police and crime commissioner/the chief constable:

- 4 Review the corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- 5 Review the Annual Governance Statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the Constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the police and crime commissioner/the chief constable in addressing risk-related issues reported to them.

- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy, actions and resources.

And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Internal audit

The committee will:

- 11 Annually review the internal audit charter and resources.
- 12 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 13 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 14 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 15 Consider summaries of internal audit reports and such detailed reports as the committee may request from the police and crime commissioner/the chief constable including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 16 Consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations (see Appendix A).

External audit

The committee will:

- 17 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 18 Consider the external auditor's annual management letter, relevant reports, and the report to those charged with governance.
- 19 Consider specific reports as agreed with the external auditor.
- 20 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Financial reporting

The committee will:

- 21 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from

the financial statements or from the audit of the financial statements that need to be brought to the attention of the police and crime commissioner and/or the chief constable.

- 22 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Accountability arrangements

The committee will:

- 23 On a timely basis report to the police and crime commissioner and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 24 Report to the police and crime commissioner and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
- 25 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the police and crime commissioner and the chief constable.

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	<p>An overview of the governance structures of the authority and decision-making processes.</p> <p>Knowledge of the organisational objectives and major functions of the authority.</p>	<p>This knowledge will be core to most activities of the audit committee including review of the Annual Governance Statement, internal and external audit reports and risk registers.</p>
Audit committee role and functions	<p>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.</p> <p>Knowledge of the purpose and role of the audit committee.</p>	<p>This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.</p>
Governance	<p>Knowledge of the six principles of the CIPFA/SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS).</p> <p>Knowledge of the local code of governance.</p>	<p>The committee will plan the assurances it is to receive in order to adequately support the AGS.</p> <p>The committee will review the AGS and consider how the authority is meeting the principles of good governance.</p>

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit	<p>An awareness of the key principles of the <i>Public Sector Internal Audit Standards</i> and the <i>Local Government Application Note</i>.</p> <p>Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.</p>	<p>The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards.</p> <p>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.</p> <p>In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed.</p>
Financial management and accounting	<p>Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them.</p> <p>Understanding of good financial management principles.</p> <p>Knowledge of how the organisation meets the requirements of the role of the chief financial officer, as required by the <i>CIPFA Statement on the Role of the Chief Financial Officer in Local Government</i>.</p>	<p>Reviewing the financial statements prior to publication, asking questions.</p> <p>Receiving the external audit report and opinion on the financial audit.</p> <p>Reviewing both external and internal audit recommendations relating to financial management and controls.</p> <p>The audit committee should consider the role of the CFO and how this is met when reviewing the AGS.</p>
External audit	<p>Knowledge of the role and functions of the external auditor and who currently undertakes this role.</p> <p>Knowledge of the key reports and assurances that external audit will provide.</p> <p>Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken.</p>	<p>The audit committee should meet with the external auditor regularly and receive their reports and opinions.</p> <p>Monitoring external audit recommendations and maximising benefit from audit process.</p> <p>The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service.</p>

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management	<p>Understanding of the principles of risk management, including linkage to good governance and decision making.</p> <p>Knowledge of the risk management policy and strategy of the organisation.</p> <p>Understanding of risk governance arrangements, including the role of members and of the audit committee.</p>	<p>In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces.</p> <p>Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans, and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee.</p> <p>The committee should also review reports and action plans to develop the application of risk management practice.</p>
Counter-fraud	<p>An understanding of the main areas of fraud risk the organisation is exposed to.</p> <p>Knowledge of the principles of good fraud risk management practice (Red Book 2).</p> <p>Knowledge of the organisation's arrangements for tackling fraud.</p>	<p>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.</p> <p>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.</p>
Values of good governance	<p>Knowledge of the Seven Principles of Public Life.</p> <p>Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff.</p> <p>Knowledge of the whistleblowing arrangements in the authority.</p>	<p>The audit committee member will draw on this knowledge when reviewing governance issues and the AGS.</p> <p>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.</p>

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	<p><i>Effective Scrutiny of Treasury Management</i>⁴³ is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are:</p> <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. 	Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.

43. CIPFA Better Governance Forum/Treasury Management Network, 2011.

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

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

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	Professional qualification in accountancy.	<p>More able to engage with the review of the accounts and financial management issues coming before the committee.</p> <p>Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues.</p> <p>More able to engage with the external auditors and understand the results of audit work.</p>
Internal audit	Professional qualification in internal audit.	<p>This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing.</p> <p>The committee would be more able to provide oversight of internal audit and review the output of audit reports.</p>
Risk management	<p>Risk management qualification.</p> <p>Practical experience of applying risk management.</p> <p>Knowledge of risks and opportunities associated with major areas of activity.</p>	<p>Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice.</p> <p>Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers.</p>
Governance and legal	Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law.	Legal knowledge may add value when the committee considers areas of legal risk or governance issues.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Service knowledge relevant to the functions of the organisation	Direct experience of managing or working in a service area similar to that operated by the authority. Previous Scrutiny Committee experience.	Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context.
Programme and project management	Project management qualifications or practical knowledge of project management principles.	Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews.
IT systems and IT governance	Knowledge gained from management or development work in IT.	Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls.

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	Able to focus on material issues and 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 contain more minor errors or control failures. The audit committee member will need pitch its 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.

Skills	Key elements	How the audit committee member is able to apply the skill
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility.	<p>The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities.</p> <p>Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken.</p>
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 Annual Governance Statement and the explanatory foreword to the accounts are well written for a non-expert audience.
Objectivity	Evaluate information on the basis of evidence presented and 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 are able to contribute, 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.

Self-assessment of Good Practice

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

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

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

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

Membership and support

12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ where independent members are used, that they have been appointed using an appropriate process. 			
13	Does the chair of the committee have appropriate knowledge and skills?			
14	Are arrangements in place to support the committee with briefings and training?			
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
17	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
19	Has the committee evaluated whether and how it is adding value to the organisation?			
20	Does the committee have an action plan to improve any areas of weakness?			

Evaluating the Effectiveness of the Audit Committee

Assessment key

- 5 Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.

- 4 Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.

- 3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.

- 2 There is some evidence that the committee has supported improvements, but the impact of this support is limited.

- 1 No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
<p>Promoting the principles of good governance and their application to decision making.</p>	<p>Providing robust review of the AGS and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.</p>		
<p>Contributing to the development of an effective control environment.</p>	<p>Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.</p>		
<p>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</p>	<p>Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.</p>		
<p>Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</p>	<p>Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.</p>		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	<p>Reviewing the audit charter and functional reporting arrangements.</p> <p>Assessing the effectiveness of internal audit arrangements and supporting improvements.</p>		
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	<p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</p> <p>Reviewing the effectiveness of performance management arrangements.</p>		
Supporting the development of robust arrangements for ensuring value for money.	<p>Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee.</p> <p>Considering how performance in value for money is evaluated as part of the AGS.</p>		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<p>Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2).</p> <p>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and governors.</p>		
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p>		



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