

**AUDIT COMMITTEE  
AGENDA**

**Tuesday 20<sup>th</sup> November 2018 at 1400 hours in the  
Council Chamber, The Arc, Clowne**

<b>Item No.</b>		<b>Page No.(s)</b>
<b>PART 1 – OPEN ITEMS</b>		
1.	To receive apologies for absence, if any.	
2.	To note any urgent items of business which the Chairman has consented to being considered under the provisions of Section 100(B) 4 (b) of the Local Government Act 1972.	
3.	Members should declare the existence and nature of any Disclosable Pecuniary Interest and Non Statutory Interest as defined by the Members' Code of Conduct in respect of:  a) any business on the agenda b) any urgent additional items to be considered c) any matters arising out of those items and if appropriate, withdraw from the meeting at the relevant time.	
4.	To approve the minutes of a meeting held on 25 <sup>th</sup> September 2018.	3 to 6
5.	<b>Report of the Internal Audit Consortium Manager</b>	
	(A) Summary of Progress on the 2018/19 Internal Audit Plan.	7 to 11
	(B) Implementation of Internal Audit Recommendations.	12 to 18
	(C) CIPFA Fraud and Corruption Tracker Survey 2018.	19 to 22
6.	<b>Reports of the Joint Head of Finance and Resources</b>	
	(A) Strategic Risk Register and Partnership Arrangements.	23 to 39
	(B) Role and Effectiveness of the Audit Committee.	40 to 46

## **AUDIT COMMITTEE**

Minutes of a meeting of the Audit Committee of the Bolsover District Council held in the Council Chamber on Tuesday 25<sup>th</sup> September 2018 at 1400 hours.

### **PRESENT:-**

Members:-

Councillor K. Reid in the Chair

Councillors D. McGregor, T. Munro, A.M. Syrett, B. Watson, D. Watson.

Officers:- S. Sternberg (Joint Head of Corporate Governance), D. Clarke (Head of Finance & Resources), J. Williams (Internal Audit Consortium Manager), J. Cooper (Auditor), M. Spotswood (Health and Safety Manager), I. Barber (Property Services Manager) and A. Bluff (Governance Officer).

Also in attendance at the meeting was R. Jaffray (Co-optee Member).

### **0307. APOLOGY**

An apology for absence was received on behalf of T. Crawley, KPMG (the Council's external auditors).

### **0308. URGENT ITEMS OF BUSINESS**

There were no urgent items of business to consider.

### **0309. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

### **0310. MINUTES – 25<sup>TH</sup> JULY 2018**

Moved by Councillor D. McGregor and seconded by Councillor A. M. Syrett

**RESOLVED** that the Minutes of an Audit Committee meeting held on 25<sup>th</sup> July 2018 be approved as a correct record.

## AUDIT COMMITTEE

### 0311. REPORTS OF THE EXTERNAL AUDITOR (KPMG)

#### (A) Annual Audit Letter 2017/18

Committee considered a report in relation to the Annual Audit Letter 2017/18, which had been prepared by KPMG, the Council's external auditors.

The Annual Audit Letter summarised the outcome of KPMG's audit work at the Council in relation to the 2017/18 audit year.

A copy of the Annual Audit Letter had previously been circulated to all Members and would be considered by full Council on 10th October 2018 and also placed on the Authority's public website.

The Head of Finance & Resources advised the meeting that there were no recommendations arising from KPMG's report. In addition, this would be KPMG's last Annual Audit Letter to the Authority and the Head of Finance & Resources relayed KPMG's thanks to officers and Members of the Audit Committee for their support throughout the six years of KPMG's audit appointment.

Members welcomed the report.

Moved by Councillor D. McGregor and seconded by Councillor T. Munro  
**RESOLVED** that the report be noted.

### 0312. REPORTS OF THE INTERNAL AUDIT CONSORTIUM MANAGER

#### (A) Summary of Progress on the 2018/19 Internal Audit Plan

Committee considered a report which provided information regarding progress made by the Internal Audit Consortium in relation to the 2018/19 Internal Audit Plan.

A summary of reports issued between 10th July 2018 and 12th September 2018 was appended to the report. Ten reports had been issued; 7 with substantial assurance, 2 with reasonable assurance and 1 with limited assurance. It was confirmed that no issues relating to fraud had been identified in respect of the areas reviewed.

In respect of the limited assurance report, Members had previously received a copy of the report and this would be considered later on in the agenda.

The following audits were currently in progress;

- Non Domestic Rates
- Freedom Of Information / Environmental Regulations
- Pest Control
- Section 106
- The Tangent

Moved by Councillor D. McGregor and seconded by Councillor T. Munro  
**RESOLVED** that the report be noted.

## AUDIT COMMITTEE

### 0313. REPORT OF THE JOINT HEAD OF FINANCE AND RESOURCES

#### (A) Strategic Risk Register and Partnership Arrangements

Committee considered a report which provided an update to Members concerning the Council's Strategic Risk Register as at 30<sup>th</sup> June 2018. The Register was attached as an appendix to the report.

Under relevant good practice and to facilitate the development of robust managerial arrangements, the Council was required to prepare a Strategic Risk Register as part of its risk management framework.

Any comments submitted by Committee regarding the Register would be taken into account in developing both the Council's risk management reports and wider risk management arrangements.

The report would also be considered by Executive at its meeting on 8th October 2018.

A Member noted that a change in the wording to two of the paragraphs in relation to the Local Plan was required;

*..... Public consultation on the main document is due to take place in May 2018, with submission scheduled by the end of July.*

**The paragraph be changed to;**

*.... 'Public consultation on the main document **took place** in May 2018' ....'*  
**and**  
*'Successfully avoided Government intervention in the plan-making process and it is important that the revised timetable continues to be met'.*

**The paragraph be changed to;**

*'Successfully avoided Government intervention in the plan-making process and **the revised timetable has been met**'.*

Moved by Councillor T. Munro and seconded by Councillor D. McGregor

**RESOLVED** that subject to the change to the wording in the two paragraphs as stated above, the Council's Strategic Risk Register as at 30<sup>th</sup> June 2018 be noted.

(Head of Finance & Resources)

### 0314. REPORT OF THE PROPERTY SERVICES MANAGER

#### (A) Results of the Homes England Audit of B@Home Schemes

Committee considered a report which provided an update on the outcome of an audit by independent auditors, 4point2, of the Bohme schemes at Primrose Hill (former Blackwell Hotel) and Rogers Avenue, Creswell.

## AUDIT COMMITTEE

In order to comply with the grant conditions set out by Homes England (Formerly HCA) and to enable the Council to remain eligible for future funding, independent audits were required and reported at Audit Committee.

Two appendices attached to the report included a summary checklist which provided an overview of the audit recommendations and confirmed that no 'breaches' were identified during the audits.

Members welcomed the report.

Moved by Councillor A.M. Syrett and seconded by Councillor T. Munro  
**RESOLVED** that the report be noted.

### **0315. THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

Moved by Councillor T. Munro and seconded by Councillor D. McGregor  
**RESOLVED** that under Section 100(A)(4) of the Local Government Act 1972 (as amended), the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in the stated Paragraph of Part 1 of Schedule 12A of the Act and it is not in the public interest for that to be revealed.

### **0316. INTERNAL AUDIT REPORTS Exempt Paragraph 3**

Committee considered a report in respect of an internal audit review undertaken on the processes and controls regarding Health and Safety across the Council.

The conclusion of the audit was that the reliability of the controls was assessed as Limited. Further details were included in the report.

Members raised concern regarding the outcome of the audit.

The Head of Corporate Governance advised the meeting that an action plan had been put in place and three items/actions had been completed to date.

Members felt that the outcome of the audit had highlighted the culture across the Authority with regard to health and safety and this needed addressing. It was suggested that Heads of Service attend a future meeting to discuss this issue with the Committee.

Moved by Councillor T. Munro and seconded by Councillor A.M. Syrett  
**RESOLVED** that the report be noted.

The meeting concluded at 1430 hours.

**Bolsover District Council**

**Audit Committee**

**20th November 2018**

**Summary of Progress on the 2018/19 Internal Audit Plan**

**Report of the Internal Audit Consortium Manager**

This report is public

**Purpose of the Report**

- To present, for members' information, progress made by the Audit Consortium, in relation to the 2018/19 Internal Audit Plan. The report includes a summary of Internal Audit Reports issued from 13th September 2018 to 8<sup>th</sup> November 2018.

**1 Report Details**

- 1.1 The 2018/19 Consortium Internal Audit Plan for Bolsover District Council was approved by the Audit Committee on the 10<sup>th</sup> April 2018.
- 1.2 The Consortium Agreement in paragraph 9.3 requires that the Head of the Internal Audit Consortium (HIAC) or his or her nominee will report quarterly (or at such intervals as the HIAC may agree with the Committee) to the Audit Committee of each Council on progress made in relation to their Annual Audit Plan.
- 1.3 Attached, as Appendix 1, is a summary of reports issued from the 13th September 2018 to the 8th November 2018. 4 reports have been issued, 2 with substantial assurance and 2 with reasonable assurance.
- 1.4 Internal Audit Reports are issued as drafts with five working days being allowed for the submission of any factual changes, after which time the report is designated as a Final Report. Fifteen working days are allowed for the return of the Implementation Plan.
- 1.5 The Appendix shows for each report a summary of the level of assurance that can be given in respect of the audit area examined and the number of recommendations made / agreed where a full response has been received.
- 1.6 The assurance provided column in Appendix 1 gives an overall assessment of the assurance that can be given in terms of the controls in place and the system's ability to meet its objectives and manage risk in accordance with the following classifications:

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

1.7 It can be confirmed that no fraud issues have been identified in respect of the areas reviewed.

1.8 The following audits are currently in progress:

- The Tangent
- Freedom Of Information / Environmental Regulations
- Clowne Leisure Centre
- Expenses and Allowances
- Payroll

## **2 Conclusions and Reasons for Recommendation**

2.1 To inform Members of progress on the Internal Audit Plan for 2018/19 and the Audit Reports issued.

2.2 To comply with the requirements of the Public Sector Internal Audit Standards.

## **3 Consultation and Equality Impact**

3.1 None

## **4 Alternative Options and Reasons for Rejection**

4.1 Not Applicable

## 5 Implications

### 5.1 Finance and Risk Implications

5.1.1 Regular reports on progress against the internal audit plan ensure compliance with the Public Sector Internal Audit Standards and allow members to monitor progress against the plan.

### 5.2 Legal Implications including Data Protection

5.2.1 None

### 5.3 Human Resources Implications

5.3.1 None

## 6 Recommendation

6.1 That the report be noted.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	All



**8 Document Information**

Appendix No	Title
Appendix 1	Summary of Internal Audit Reports Issued from the 13th September 2018 to the 8th November 2018.
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
N/A	
Report Author	Contact Number
Jenny Williams	01246 217547

JENNY WILLIAMS  
INTERNAL AUDIT CONSORTIUM MANAGER

**BOLSOVER DISTRICT COUNCIL**

**Appendix 1**

**Internal Audit Consortium - Report to Audit Committee**

**Summary of Internal Audit Reports Issued from the 13th September to the 8th November 2018**

Report Ref No.	Report Title	Scope and Objectives	Assurance Provided	Date		Number of Recommendations	
				Report Issued	Response Due	Made	Accepted
B019	Right to Buy Sales	To ensure that there is a process in place that meets legislative requirements	Reasonable	17/9/18	8/10/18	4 (1H 1M 2L)	4
B020	Section 106 Agreements	To ensure that all monies are collected and spent in a timely manner	Substantial	17/9/18	8/10/18	4L	4
B021	Pest Control	To review the processes in place	Reasonable	5/11/18	26/11/18	4 (1H 1M 2L)	Note 1
B022	National Non Domestic Rates	To ensure that bills are raised in a timely and accurate manner and that there are adequate debt collection procedures in place	Substantial	5/11/18	26/11/18	0	0

Notes: For recommendations, H = High priority, M = Medium priority and L = Low Priority.

Note 1 Response not due at time of writing report

**Bolsover District Council**

**Audit Committee**

**20th November 2018**

Implementation of Internal Audit Recommendations

**Report of the Internal Audit Consortium Manager**

This report is public

**Purpose of the Report**

- To present, for members' information, a summary of the internal audit recommendations made and implemented for the financial years 2016/17 - 2018/19.

**1 Report Details**

- 1.1 This report is to inform Members of the Audit Committee of the progress made in respect of implementing internal audit recommendations in order that action can be taken if progress is deemed unsatisfactory. The implementation of internal audit recommendations is also monitored quarterly at Directorate meetings.
- 1.2 Appendix 1 details the outstanding internal audit recommendations as at the end of October 2018. The front page of the Appendix provides an analysis of the number of recommendations made and implemented for the financial years 2016/17 – 2018/19.
- 1.3 The timely implementation of internal audit recommendations helps to ensure that the risk of fraud and error is reduced and that internal controls are operating effectively.
- 1.4 It is proposed that this report is brought to the Committee on a 6 monthly basis.

**2 Conclusions and Reasons for Recommendation**

- 2.1 To inform Members of the internal audit recommendations outstanding so that it can be assessed if appropriate and timely action is being taken.

**3 Consultation and Equality Impact**

- 3.1 None

#### 4 **Alternative Options and Reasons for Rejection**

4.1 Not Applicable

#### 5 **Implications**

##### 5.1 **Finance and Risk Implications**

5.1.1 Regular reports on progress against the implementation of internal audit recommendations ensures compliance with the Public Sector Internal Audit Standards and allows members to monitor progress.

##### 5.2 **Legal Implications including Data Protection**

5.2.1 None

##### 5.3 **Human Resources Implications**

5.3.1 None

#### 6 **Recommendation**

6.1 That the report be noted.

#### 7 **Decision Information**

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	All

**8 Document Information**

Appendix No	Title
Appendix 1	Summary of Internal Audit recommendations made and implemented 2016/17 – 2018/19
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
N/A	
Report Author	Contact Number
Jenny Williams	01246 217547

JENNY WILLIAMS

INTERNAL AUDIT CONSORTIUM MANAGER

**Internal Audit Consortium - Report to Audit Committee**  
**Summary of Internal Audit Recommendations made and implemented 2016/17 – 2018/19**

<b>Recommendations Made</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Number of High Priority	23	0	7
Number of Medium Priority	26	48	25
Number of Low priority	17	31	39
<b>Total</b>	<b>66</b>	<b>79</b>	<b>71</b>
<b>Recommendations Implemented</b>	<b>66</b>	<b>72</b>	<b>24</b>
High Recommendations Outstanding	0	0	0
Medium Recommendations Outstanding	0	1	4
Low Recommendations Outstanding	0	3	0
Not overdue yet	0	3	43
Total Overdue Recommendations	0	4	4
<b>Percentage due implemented</b>	<b>100%</b>	<b>95%</b>	<b>86%</b>

<b>Audit</b>	<b>Recommendation Outstanding</b>	<b>Priority</b>	<b>Managers Comment</b>
Business Continuity - May 17	R2. The frequency of which business continuity training / exercises are undertaken requires increasing.	Low	The current schedule will be reviewed and increased to include service area plans - this is being developed at present and will be circulated during quarter 1 18/19
Business Continuity – May 17	R3. The production of an annual report to Members outlining the years' activities for emergency planning and business continuity and an action plan for the forthcoming year is reintroduced.	Low	This will be developed and scheduled / agreed with CEO - we aim to circulate during quarter 1 18/19
Disabled Facilities Grants – Sept 17	A review of the website information relevant to DFG across both Council's should be considered to ensure consistency in the availability of information and to share best practice / documentation	Low	Countywide information has still not been agreed and therefore interim information will be uploaded by the next quarter
Food Hygiene Enforcement – November 17	An overarching quality assurance process for food safety should be documented with consideration of FSA requirements and, as a minimum, an overview of the	Medium	Due to other work priorities this work process is still ongoing and will be progressed during 2018/19

	<p>following areas:</p> <ul style="list-style-type: none"> <li>- Overview of the work programme process to ensure all premises are timely inspected and reviewed,</li> <li>- Monitoring progress of the planned intervention programme,</li> <li>- Peer review frequencies and requirements,</li> <li>- Adhoc reviews of inspections by EHO's to ensure availability and full completion of inspection / audit paperwork</li> <li>- Consideration of internal performance indicators including issuing of 'stickers' within 14 days.</li> </ul>		
Risk Management – May 2018	<p>R2 The information requirements for operational risk registers should be reviewed to ensure that responsibilities are allocated to designated officers with respective timescales for the implementation of agreed actions to mitigate risk. Monitoring should then take place to ensure that agreed</p>	Medium	<p>The information requirements have been reviewed. Monitoring is to take place to ensure that agreed actions are taken and risk scores reviewed regularly.</p>



	actions are taken and the risk score revised appropriately.		
Risk Management – May 2018	R3 Operational risk registers should be regularly reviewed at Service Team Meetings to ensure all current risks and potential actions for mitigation are considered	Medium	Managers have been reminded at quarterly Directorate meetings that their operational risk registers should be reviewed at team meetings. Checks are to be performed to ensure that this is happening.
Risk Management – May 2018	R4 With the implementation of the revised management structure, it should be ensured that there is an operational risk register for each service area.	Medium	An exercise is to be undertaken to ensure that all service areas have a comprehensive operational risk register.
Transport Part 2 – July 2018	R1. The range of reports required from the Tranman system are considered to determine the most cost effective way of producing a functional library of operational reports.	Medium	Q2 (2018\19) Ongoing work being undertaken to assess current report library and modify where required by way of internal Crystal Report capability or Civica Tranman support. Q1 (2018\19) SB\PB to assess current report library and modify these where required by way of internal Crystal Report capability or Civica Tranman support.

**Bolsover District Council****Audit Committee****20th November 2018**

CIPFA Fraud and Corruption Tracker Survey 2018

**Report of the Internal Audit Consortium Manager**

This report is public

**Purpose of the Report**

- To present, for members' information the results of CIPFA's Fraud and Corruption Tracker (CFaCT) survey undertaken in 2018 that provides a picture of fraudulent activity in local government.
- To detail the controls and procedures that BDC has in place to mitigate the risk of fraud.

**1 Report Details**

- 1.1 Each year the Audit Commission used to publish a report titled "Protecting the Public Purse" which highlighted the risks posed by fraud to Local Authorities and identified best practice in procedures to minimise these risks.
- 1.2 The CIPFA Counter Fraud Centre was launched in July 2014 to fill the gap in the UK fraud arena following the closure of the National Fraud Authority and the Audit Commission. The fourth CFaCT survey was carried out in 2018 with the aim of providing a national picture of fraud, bribery and corruption in local government.
- 1.3 The key findings of the 2018 CIPFA Fraud and Corruption Tracker were:-
  - An estimated £302 million of fraud (80,000 frauds) has been detected or prevented across local authorities in 2017/18. This has dropped from £336 million in 2016/17.
  - The average value per fraud decreased from £4,500 in 2016/17 to £3,600 in 2017/18.
  - The survey found that the largest growing area of fraud was business rate fraud increasing from £4.3 million in 2016/17 to £10.4 million in 2017/18.
  - Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas
  - Two thirds of identified frauds relate to council tax fraud (66%) with a value of £9.8 million.

- The highest area of fraud detected/prevented from investigations was housing and tenancy fraud, totalling 97.4 million.
- 51% of organisations who responded have a dedicated counter fraud service.

1.4 This evidences that fraud is still a major financial threat to local authorities.

### **BDC Fraud Prevention Measures**

1.5 BDC takes the risk of fraud very seriously and has a range of measures in place to reduce the risk of fraud occurring.

- There is an established approach of a zero tolerance policy towards fraud which is set out in the Council's Anti – Fraud and Bribery and Corruption Policy (including Money Laundering Policy) that was last approved by this Committee in October 2015.
- There is an allowance for special investigations in the internal audit plan.
- The Internal audit plan covers the whole of the organisation.
- The National Fraud Initiative is participated in and the results are subject to an internal audit report.
- Potential Council Tax Support frauds are investigated by council tax staff (Benefit fraud is now dealt with by the DWP)
- Data matching processes with the DWP and HMRC
- The Council has a Confidential Reporting Code (Whistleblowing Policy)
- The Council has a fraud risk register
- Recruitment procedures ensure that checks are undertaken to prevent the council employing people working under false identities etc.
- Council tax have a rolling program of discount exemption checks
- The IT systems are Public Sector Network (PSN) compliant
- In September 2016 a self- assessment was undertaken against the “Local Government Counter Fraud and Corruption Strategy 2016 – 19” checklist. The results were reported to this committee.

## **2 Conclusions and Reasons for Recommendation**

2.1 To inform Members of the results of the CIPFA Fraud and Corruption Tracker survey.

2.2 To provide Members with details of the fraud prevention measures in place at BDC.

## **3 Consultation and Equality Impact**

3.1 None.

## **4 Alternative Options and Reasons for Rejection**

4.1 None.

## 5 Implications

### 5.1 Finance and Risk Implications

5.1.1 Raising the awareness of fraud issues amongst Members and staff helps to mitigate the risk and potential cost of fraud.

### 5.2 Legal Implications including Data Protection

5.2.1 None

### 5.3 Human Resources Implications

5.3.1 None

## 6 Recommendation

6.1 That the results of CIPFA's Fraud and Corruption Tracker Survey be noted.

6.2 That the fraud prevention measures that BDC has in place be noted.

## 7 Decision Information

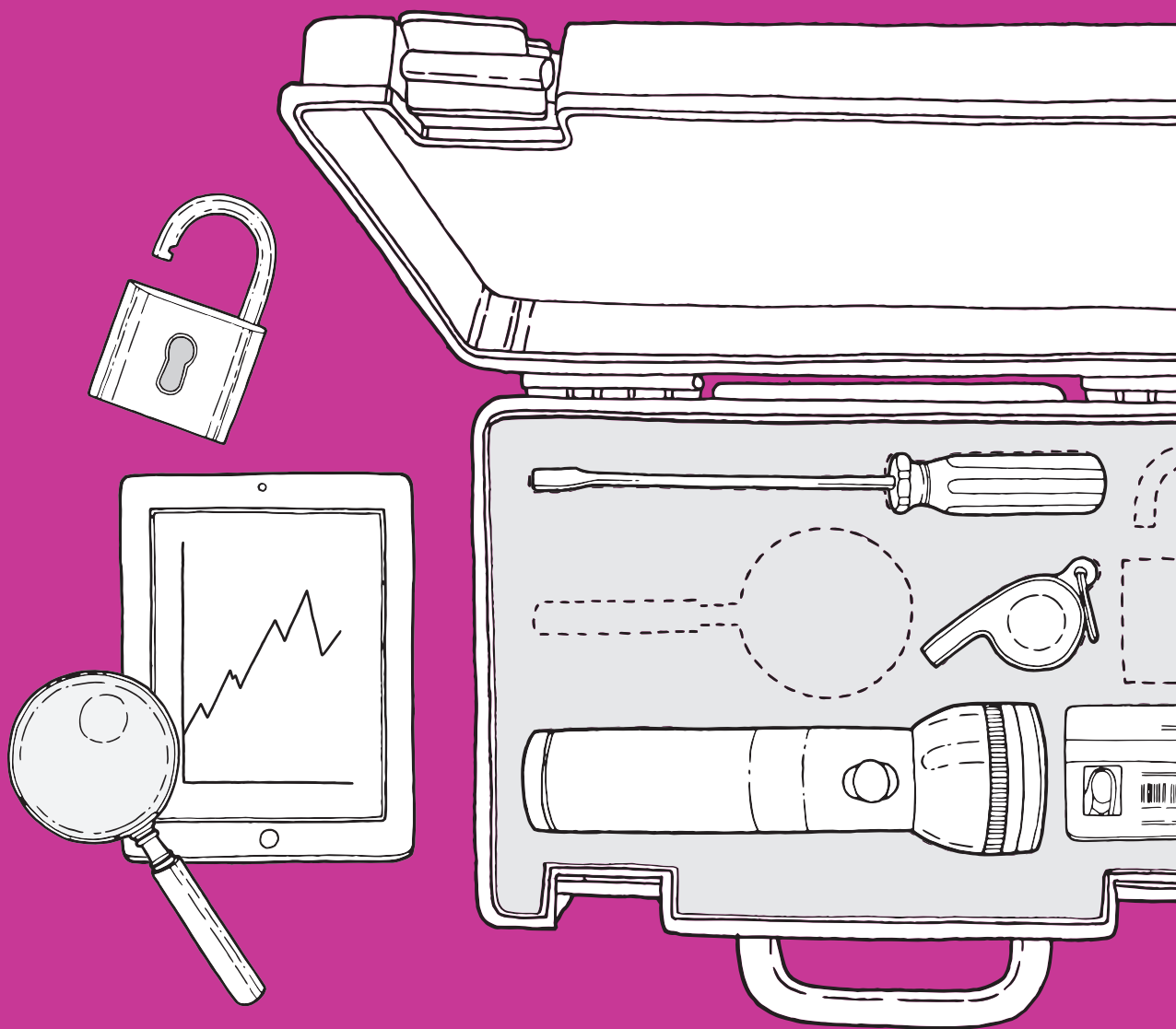
<p><b>Is the decision a Key Decision?</b>  A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:  <i>BDC: Revenue - £75,000</i> <input type="checkbox"/>  <i>Capital - £150,000</i> <input type="checkbox"/>  <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/>  <i>Capital - £250,000</i> <input type="checkbox"/>  <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p><b>Is the decision subject to Call-In?</b>  (Only Key Decisions are subject to Call-In)</p>	No
<p><b>District Wards Affected</b></p>	All
<p><b>Links to Corporate Plan priorities or Policy Framework</b></p>	All

**8 Document Information**

Appendix No	Title
Appendix 1	CIPFA Fraud and Corruption Tracker Summary 2018
<p><b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
Report Author	Contact Number
Jenny Williams Internal Audit Consortium Manager	01246 217547

# fraud and corruption tracker

Summary Report 2018



**CIPFA COUNTER  
FRAUD CENTRE**

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## Foreword

As guardians of public resources, it is the obligation of every public sector organisation in the UK to fight fraud and corruption. Taking effective measures in counter fraud amounts to much more than simply saving money, as illegitimate activities can undermine the public trust, the very social licence, which is essential to the ability of organisations to operate effectively.

The CIPFA Fraud and Corruption Tracker (CFaCT) survey aims to help organisations, and the public at large, better understand the volume and type of fraudulent activity in the UK and the actions which are being taken to combat it.

With support from the National Audit Office (NAO), the National Crime Agency (NCA) and the Local Government Association (LGA), these insights reflect the current concerns of fraud practitioners from local authorities in a bid to create a focus on trends and emerging risks.

Key findings this year, such as the continued perception of procurement as the area at most susceptible to fraud, and the growing cost of business rates fraud, should help councils allocate resources appropriately to counter such activity.

For this reason, the 2018 CFaCT survey should be essential reading for all local authorities as part of their ongoing risk management activity. It provides a clear picture of the fraud landscape today for elected members, the executive and the professionals responsible for countering fraud, helping their organisations benchmark their activities against counterparts in the wider public sector.

When councils take effective counter fraud measures they are rebuilding public trust, and ensuring our increasingly scarce funds are being used effectively to deliver services.

### **Rob Whiteman**

Chief Executive, CIPFA

The survey was supported by:





## The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission. Building on CIPFA's 130-year history of championing excellence in public finance management, we offer training and a range of products and services to help organisations detect, prevent and recover fraud losses.

We lead on the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally, and were named in the government's Anti-Corruption Plan (2014) as having a key role to play in combatting corruption, both within the UK and abroad.



## Acknowledgements

CIPFA would like to thank all the organisations that completed the survey along with those that helped by distributing the survey or contributing case studies/best practices, including:

- Local Government Association
- Solace
- Home Office
- The Fighting Fraud and Corruption Locally board
- Salford City Council
- Sandwell Council

## Introduction

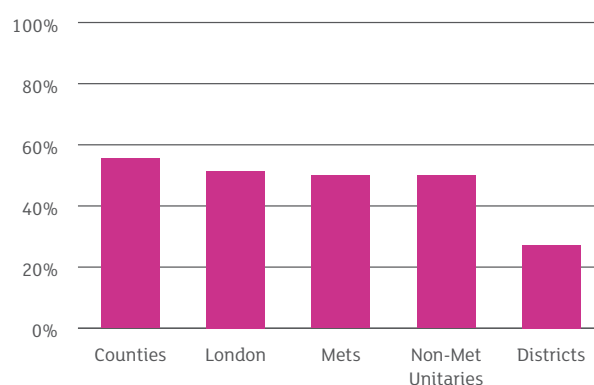
CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the Annual Fraud Indicator 2013, which provides the last set of government sanctioned estimates, fraud costs the public sector at least £20.6bn annually and of this total, £2.1bn is specifically in local government.

Fraud continues to pose a major financial threat to local authorities and working with partners such as the LGA and Home Office, we are seeing an emerging picture of resilience and innovation within a sector that is aware of the difficulties it faces and is finding solutions to the challenges.

In May 2018, CIPFA conducted its fourth annual CFaCT survey, drawing on the experiences of practitioners and the support and expertise of key stakeholders to show the changing shape of the fraud landscape. This survey aims to create a national picture of the amount, and types of fraud carried out against local authorities.

The results were received from local authorities in all regions in the UK, allowing CIPFA to estimate the total figures for fraud across England, Scotland, Wales and Northern Ireland.

### Response rate



This report highlights the following:

- the types of fraud identified in the 2017/18 CFaCT survey
- the value of fraud prevented and detected in 2017/18
- how to improve the public sector budget through counter fraud and prevention activities
- how the fraud and corruption landscape is changing including emerging risks and threats.

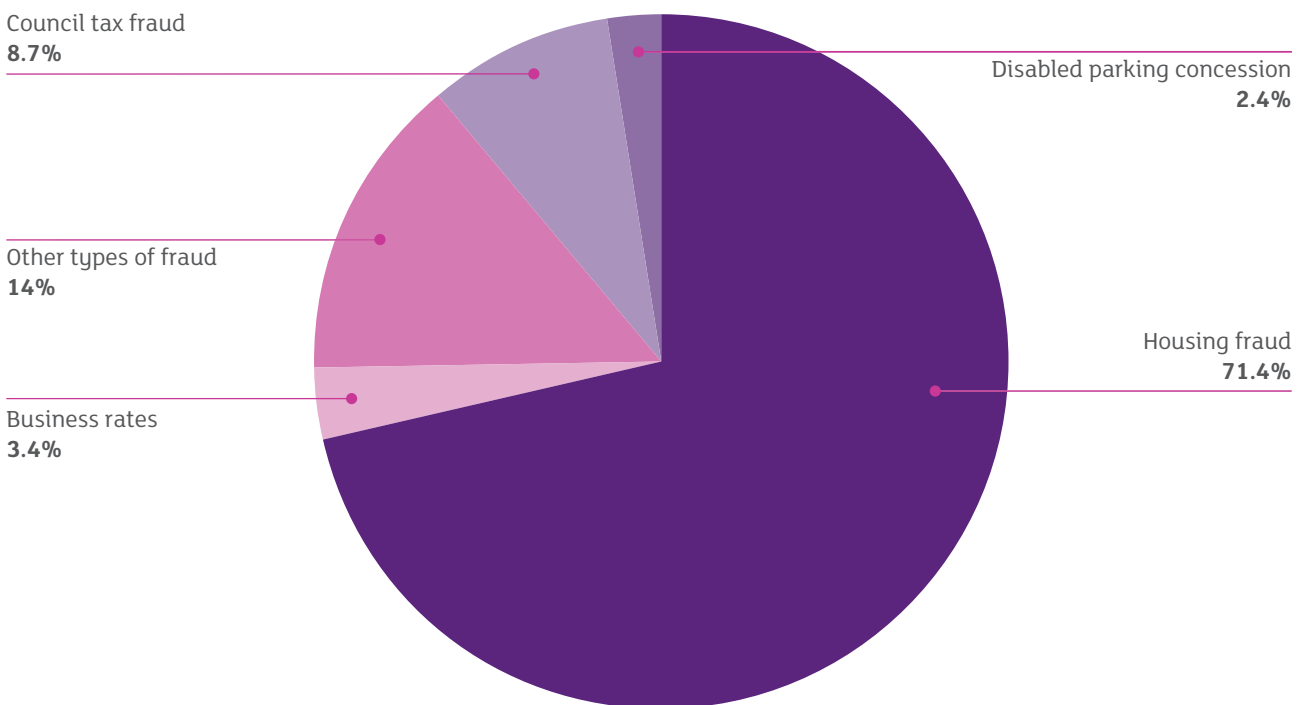
## Executive summary

CIPFA has estimated that for local authorities in the UK, the total value of fraud detected or prevented in 2017/18 is £302m, which is less than the £336m estimated in 2016/17. The average value per fraud has also reduced from £4,500 in 2016/17 to £3,600 in 2017/18.

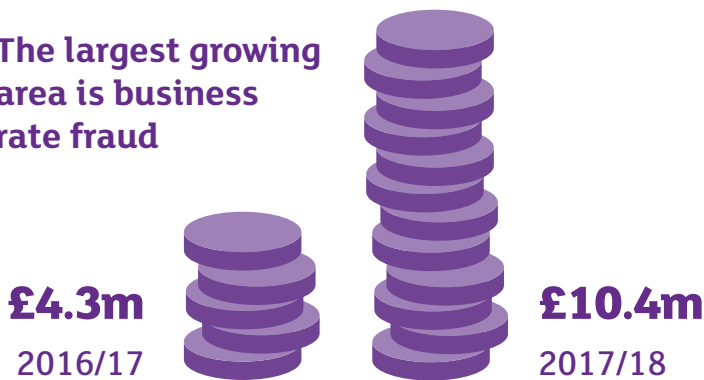
Respondents report that approximately 80,000 frauds had been detected or prevented in 2017/18, which is a slight increase from just over 75,000 frauds in 2016/17. The number of serious and organised crime cases, however, has doubled since 2016/17. This increase may

suggest that fraud attacks are becoming more complex and sophisticated due to fraud teams becoming more effective at prevention. Alternatively, fraud teams may have developed a more effective approach for detecting or preventing such frauds.

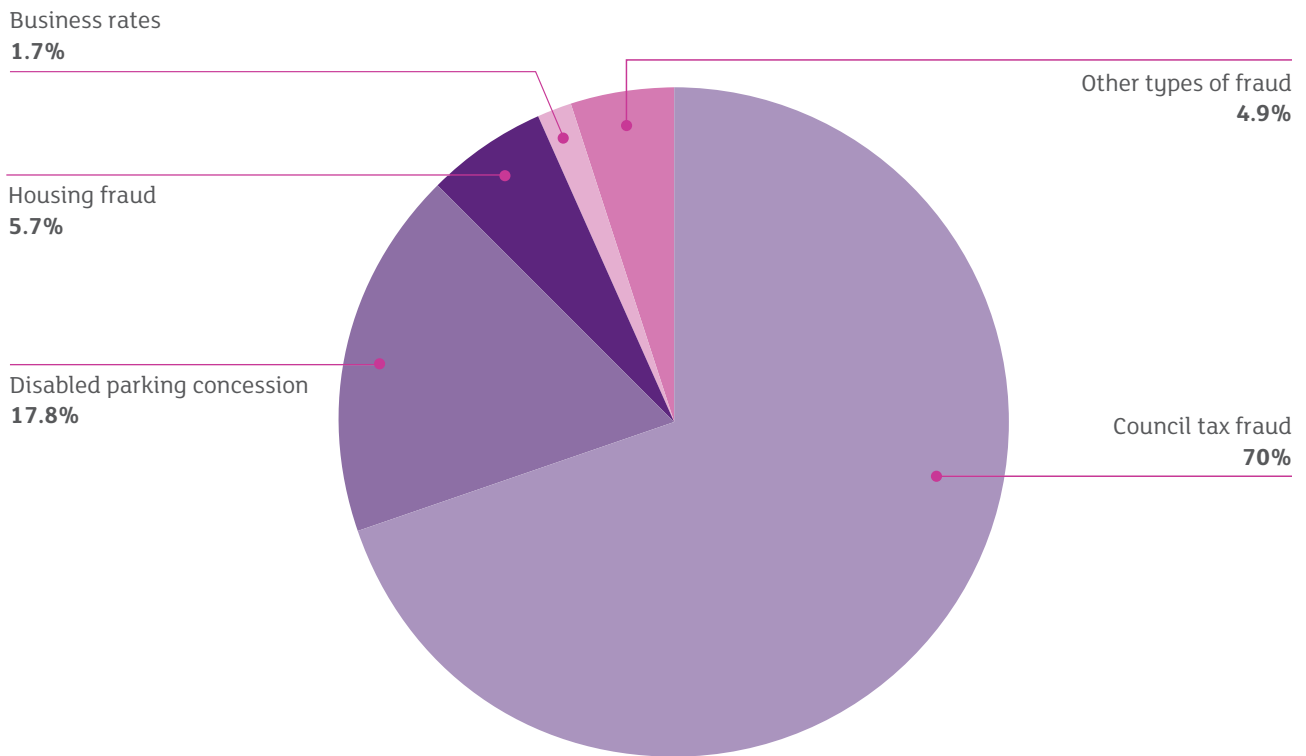
### Estimated value of fraud detected/prevented



### The largest growing area is business rate fraud



### Detected fraud by estimated volume



For 2017/18, it has been highlighted that the three greatest areas of perceived fraud risk are procurement, council tax single person discount (SPD) and adult social care.

The largest growing area is business rates fraud, with an estimated £10.4m lost in 2017/18 compared to £4.3m in 2016/17. This is followed by disabled parking concession (Blue Badge) which has increased by £3m to an estimated value of £7.3m for cases prevented/detected in 2017/18.

Two thirds of identified frauds related to council tax fraud (66%), with a value of £9.8m, while the highest

value detected/prevented from investigations was housing fraud, totalling £97.4m.

None of the respondents reported any issues with needing greater public support for tackling fraud, but some agreed that there needs to be an increased priority given within councils to tackling fraud.

Historically, it is shown that the more effective and efficient authorities are at detecting and preventing fraud, the more they will discover. This means that even if the levels of detection and prevention have increased, this is more likely due to a greater emphasis towards battling fraud rather than weak controls.

## Main types of fraud

The 2017/18 CFaCT survey indicates that there are four main types of fraud (by volume) that affect local authorities:

1. council tax
2. housing
3. disabled parking (Blue Badge)
4. business rates.

### Council tax

Council tax fraud has consistently been the largest reported issue over the last four years. As the revenue forms part of the income for local authorities, there is a clear correlation between council tax fraud and a reduction in the available budget.

It has traditionally been an area of high volume/low unit value, and this year's results reflect that trend. Council tax fraud represents the highest number of fraud cases reported by local authorities (66%), however, the total value of the fraud, estimated at £26.3m in 2017/18, accounts for only 8.7% of the value of all detected fraud.

The number of detected/prevented cases in the area of council tax SPD has reduced from 2016/17 levels, but we see a rise in the number of incidents and value in council tax reduction (CTR) and other forms of council tax fraud.

#### Estimated council tax fraud

	2016/17		2017/18	
	Volume	Value	Volume	Value
SPD	50,136	£19.5m	46,278	£15.8m
CTR	6,326	£4.8m	8,759	£6.1m
Other	674	£1.1m	2,857	£4.5m
<b>Total</b>	<b>57,136</b>	<b>£25.5m</b>	<b>57,894</b>	<b>£26.3m</b>



Council tax fraud represents the highest number of fraud cases reported, but only 8.7% of the detected value.



## Housing and tenancy fraud

Housing is expensive in many parts of the country, particularly in the South East of England, and therefore a low number of cases produces a high value in terms of fraud. However, councils record the income lost to housing fraud using different valuations, ranging from a notional cost of replacing a property set by the National Fraud Initiative (NFI) to the average cost for keeping a family in bed and breakfast accommodation for a year.

The difference in approach can lead to substantial differences. For example, two years ago, the NFI increased its standard notional figure to include other elements, and this increased the figure to £93,000, which is substantially larger than the previous figure of £18,000. This means that authorities may be using differing notional figures to calculate their average valuation of loss, which in turn leads to variations.

As housing has become increasingly expensive, the value of right to buy fraud is evidently higher than the other types of housing fraud. The value of this type of fraud is higher in London than in other parts of the country, with an estimated average of £72,000 per case compared to the rest of the UK combined, which has an estimated total of £50,000 per case.

However, the overall value and value of right to buy fraud has continued to decline – see table below.

### Estimated housing fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Right to buy	1,284	£111.6m	1,518	£92.0m
Illegal sublet	1,829	£78.5m	1,051	£55.8m
Other*	2,825	£73.3m	2,164	£68.3m
<b>Total</b>	<b>5,938</b>	<b>£263.4m</b>	<b>4,733</b>	<b>£216.1m</b>

\*Other includes tenancy fraud that are neither right to buy nor illegal sublet, and may include succession and false applications.

### Disability Faculty Grant and housing fraud

Ms C used her disabled child as a means of requesting money from the local authority to fit a downstairs bathroom in their home. This request was rejected but Ms C appealed and the matter was taken to court where it was revealed that she owned multiple properties and was actually living in a different county, where she was also claiming disability benefits. The appeal was denied and Ms C was instructed to pay over £16,000 in court costs within half a year.

Since 2016/2017, right to buy value has decreased by

# 18%

# £216m

the estimated total value loss from housing fraud investigated during 2017/18

## Disabled parking (Blue Badge)

Fraud from the misuse of the Blue Badge scheme has increased for the first time since CIPFA began running the survey, with the number of cases rising by over 1,000 between 2016/17 and 2017/18. The survey also indicates that 49% of Blue Badge fraud cases in 2017/18 were reported by counties.

There is no standard way to calculate the value of this type of fraud and some authorities, for example in London, place a higher value on the loss than others and invest more in counter fraud resource.

The cost of parking in London results in a higher value to case ratio, which is shown in the average value per case reported – £2,150 in comparison to counties who had an average of £449 per case.

In the event that a Blue Badge misuse is identified, the offender is often prosecuted and fined (which is paid to the court). Costs are awarded to the prosecuting authority but these may not meet the full cost of the investigation and prosecution, resulting in a loss of funds. This potential loss could explain why authorities do not focus as much attention on this type of fraud.

Blue Badge fraud is often an indicator of other benefit-related frauds, such as concessionary travel or claims against deceased individuals by care homes for adult social care.

# 49%

of Blue Badge fraud cases in 2017/18 were reported by counties

The average value per case reported is:

# £2,150

in London

# £449

in counties

## Business rates

Business rates are a key cost for those who have to pay the tax and is the largest growing risk area in 2017/18; district councils have identified this as their fourth biggest fraud risk area for 2017/18 after housing fraud, council tax and procurement.

Business rates fraud represented 0.9% of the total number of frauds reported in 2016/17, with an estimated

value of £7m. In 2017/18, this increased to 1.7%, with an estimated value of £10.4m.

The rise in the number and value of fraud detected/prevented since 2016/17 could be as a result of more authorities participating in business rates data matching activities, uncovering more cases of fraud that had previously gone unnoticed.

### Data matching uncovers business rates fraud

The fraud team at Salford City Council undertook a business rates data matching exercise with GeoPlace. They used geographical mapping and other datasets to identify businesses that were not on the ratings list and were hard to find. The results identified seven potential business and the cases were sent to the Valuation Office Agency. Of the three returned to date, one attracted small business rate relief and rates on the other two were backdated to 2015, generating a bill of £90,000.

## Other types of fraud

Fraud covers a substantial number of areas and within organisations these can vary in importance. This part of the report looks at specific areas of fraud that did not appear as major types of fraud within the national picture but are important to individual organisations. These include the following fraud types:

- adult social care
- insurance
- procurement
- no recourse to public funds/welfare assistance
- payroll, recruitment, expenses and pension
- economic and voluntary sector support and debt
- mandate fraud and manipulation of data.

### Adult social care

The estimated value of adult social care fraud cases has increased by 21%, despite a fall in the average value per case – £9,000 in 2017/18 compared to £12,500 in 2016/17. This is a product of the significant rise in the number of frauds within adult social care which are not related to personal budgets. In recent years, many local authorities have funded training and introduced robust controls to mitigate the risk of fraud within personal budgets, which has resulted in a reduction of the estimated value per case to under £9,800 in 2017/18 compared to over £10,000 in 2016/17.

This year's survey also highlights a decline in the number of adult social care insider fraud cases, with 2% of cases involving an authority employee, compared to 5% last year.

#### Estimated adult social care fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Personal budget	264	£2.7m	334	£3.2m
Other	182	£2.8m	403	£3.5m
<b>Total</b>	<b>446</b>	<b>£5.5m</b>	<b>737</b>	<b>£6.7m</b>
<b>Average value per fraud</b>		<b>£12,462</b>		<b>£9,123</b>



## Insurance fraud

The number of insurance frauds investigated has decreased to 117 with an average value of over £12,000, which explains the significant decline also in the total value of fraud detected/prevented. The total estimated value of loss in 2017/18 is £3.5m compared to £5.1m in 2016/17.

Respondents who identified insurance fraud also reported two confirmed serious and organised crime cases and two insider fraud cases.

Considerable work has been done in the area of insurance fraud, and insurance companies are working with organisations to develop new ways to identify fraud and abuse within the system, which seems to be effective given the steady decline in volume and value of cases reported.

The Insurance Fraud Bureau was one of the first to use a data analytical tool to identify fraud loss through multiple data sources in the insurance sector. This best practice is now being applied to local government, for example by the London Counter Fraud Hub, which is being delivered by CIPFA.

## Procurement fraud

In last year's survey procurement was seen as one of the greatest areas of fraud risk and this remains the same for 2017/18.

Procurement fraud takes place in a constantly changing environment and can occur anywhere throughout the procurement cycle. There can be significant difficulties in measuring the value of procurement fraud since it is seldom the total value of the contract but an element of the contract involved. The value of the loss, especially post award, can be as hard to measure but equally significant.

In 2016/17, there was an estimated 197 prevented or detected procurement frauds with an estimated value of £6.2m, which has now decreased to 142 estimated fraudulent cases with an estimated value of £5.2m. Twenty-five percent of reported cases were insider fraud and a further 20% were serious and organised crime.

## Estimated procurement fraud

2016/17		2017/18	
Volume	Value	Volume	Value
197	£6.2m	142	£5.2m

CIPFA is working with the Ministry of Housing, Communities and Local Government (MHCLG) in an effort to understand more about procurement fraud and how we can develop more solutions in this area.

The [Fighting Fraud and Corruption Locally Strategy 2016 to 2019 \(FFCL\)](#) recommends that local authorities have a procurement fraud map and use it to define the stages at which procurement fraud can happen. This enables authorities to highlight low, medium and high potential risks and inform risk awareness training for the future.

The Competition and Markets Authority has produced a [free online tool](#) that studies the data fed in against bidder behaviour and price patterns, allowing the public sector to identify areas of higher risk within procurement. It then flags areas where there could be potential fraud and which should be investigated.

## Welfare assistance and no recourse to public funds

In 2016/17 the estimated number of fraud cases related to welfare assistance was 74, increasing to an estimated 109 in 2017/18.

The number of cases in no recourse to public funding cases has reduced to an estimated 334 in 2017/18. The value of the average fraud has more than halved, falling to an estimated £11,500 in 2017/18 from £28,100 in 2016/17. This is reflected by the overall decrease in total value of the fraud to an estimated £4.3m.

## Economic and voluntary sector (grant fraud) and debt

As funds become more limited for this type of support, it is even more important for fraud teams to be aware of the risks within this area.

In the 2016/17 survey, there were 17 actual cases of grant fraud reported, which increased to 24 cases with an average estimated loss of £14,000 per case for 2017/18.

Debt had 38 reported cases in 2017/18 valued at over £150,000, with one case of insider fraud.

## Payroll, expenses, recruitment and pension

If we combine all the estimated results for these four areas, the total value of the fraud loss is an estimated £2.1m.

Measuring the cost of these frauds can be quite difficult as they carry implications that include reputational damage, the costs of further recruitment and investigations into the motives behind the fraud. As a result, some organisations could be less likely to investigate or report investigations in these areas.

Payroll has the highest volume and value of fraud out of these four areas for 2017/18, and 51% of the cases investigated or prevented were reported as insider fraud.

Recruitment fraud has the second highest estimated average per case of £9,400. This is quite an interesting area for fraud practitioners given their work is often not recorded as a monetary value as the application is refused or withdrawn. So, it is more likely the figure represents the estimated cases of fraud that were prevented in 2017/18.

## Estimated fraud

Type	2016/17		2017/18	
	Volume	Value	Volume	Value
Payroll	248	£1.0m	167	£1.01m
Expenses	75	£0.1m	34	£0.03m
Recruitment	46	£0.2m	52	£0.49m
Pension	228	£0.8m	164	£0.57m
<b>Total</b>	<b>597</b>	<b>£2.1m</b>	<b>417</b>	<b>£2.10m</b>

## Manipulation of data (financial or non-financial) and mandate fraud

CIPFA estimates that across the UK there have been 23 cases of manipulation of data fraud, which is less than half of the estimated cases in 2016/17.

There were 257 estimated cases of mandate fraud in 2017/18 compared to 325 estimated cases detected or prevented in 2016/17.

These areas of fraudulent activity are on the decline and advice from organisations such as Action Fraud is useful.



## Serious and organised crime

The survey question on serious and organised crime was requested by the Home Office and was included in the 2017/18 survey in order to help establish how it is being tackled by local authorities.

Organised crime often involves complicated and large-scale fraudulent activities which cross more than one boundary, such as payroll, mandate fraud, insurance claims, business rates and procurement. These activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The 2017/18 survey identified 56 cases of serious and organised crime which was over double the figures reported in 2016/17 – 93% of these cases were reported by respondents from metropolitan unitaries. This shows that in the bigger conurbations, there is higher serious and organised crime activity (as one would expect) which is why some of the emerging counter fraud hubs are using predictive analytics to detect organised crime.

The responses indicate that organisations share a great deal of data both internally and externally – 34% share with the police and 16% share with similar organisations (peers). In addition, of the organisations that responded, 47% identified serious and organised crime risks within their organisation's risk register.

# 93%

the percentage of respondents who share data externally



Key data sharing partners are the police and other similar organisations.



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## Whistleblowing

This year, 74% of respondents said that they annually reviewed their whistleblowing arrangements in line with PAS 1998:2008 Whistleblowing Arrangements Code of Practice.

Of those questioned, 87% confirmed that staff and the public had access to a helpdesk and 71% said that the helpline conformed to the BS PAS 1998:2008. Respondents reported a total of 560 whistleblowing

cases, made in line with BS PAS 1998:2008; representing disclosures in all areas, not just with regard to suspected fraudulent behaviour.

## Resources and structure

Fraud teams are detecting and preventing more frauds despite reductions in their resources. It is therefore unsurprising to see 14% of respondents have a shared services structure; this approach has gained popularity in some areas as a method of allowing smaller organisations to provide a service that is both resilient and cost effective.

We have also seen a rise in authorities who have a dedicated counter fraud team – from 35% in 2016/17 to 51% in 2017/18. It is worth noting that there may be a potential bias in this figure as those who have a dedicated counter fraud team are more likely and able to return data for the CFaCT survey.

For organisations that do not go down the shared service route, the 2017/18 survey showed no growth in staff resources until 2020. This position would appear to be a

change from 2016 when some respondents had hoped to increase their staff numbers.

The number of available in-house qualified financial investigators has dipped slightly from 34% in 2016/17 to 31% in 2017/18. In addition, the percentage of authorities that do not have a qualified financial investigator increased from 35% in 2016/17 to 41% in 2017/18, which continues to show that resources for fraud are stretched.

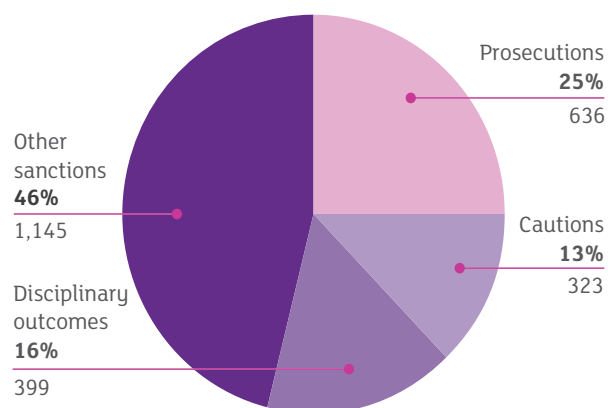
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## Sanctions

Below are some of the key findings regarding sanctions:

- 636 prosecutions were completed in 2017/18 and of these, 15 were involved in insider fraud and 14 of those were found guilty
- the number of cautions increased from 9% in 2016/17 to 13% in 2017/18
- the percentage of other sanctions dropped from 53% in 2016/17 to 46% in 2017/18.

### Outcome of sanctions



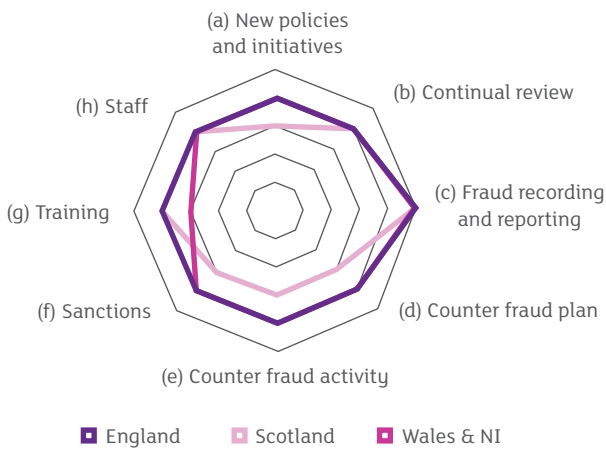
# Fighting Fraud and Corruption Locally

The Fighting Fraud and Corruption Locally Strategy 2016–2019 (FFCL Strategy) was developed by local authorities and counter fraud experts and is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

The FFCL Strategy is available for councils to use freely so that everyone can benefit from shared good practice and is aimed at local authority leaders. It provides advice on how to lead and communicate counter fraud and corruption activity for the greatest impact, as well as covering resource management and investment in counter fraud operations.

The FFCL Board put forward specific questions to be included in the CFaCT survey to help measure the effectiveness of the initiatives in the FFCL Strategy and the responses are reflected in the diagrams below. The more confident respondents are about how fraud is dealt with in their organisation, the higher they marked the statement; the lower scores are towards the centre of the diagram.

## Counter fraud controls by country



Over the past four years the same three issues have arisen when we have asked the question: *what are the three most significant issues that need to be addressed to effectively tackle the risk of fraud and corruption at your organisation?* These are:

- capacity
- effective fraud risk management
- better data sharing.

The FFCL’s 34 point checklist covers each one of these areas and provides a comprehensive framework that can be used to address them. It can be downloaded from the [CIPFA website](#).

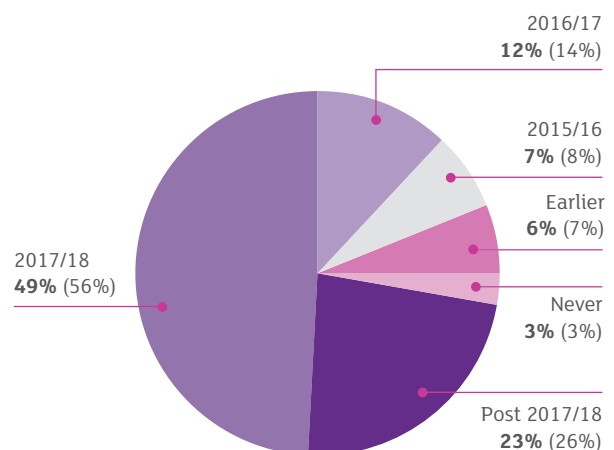
The FFCL Strategy recommends that:

*There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority’s business and includes activities undertaken by contractors and third parties or voluntary sector activities.*

By producing a plan and resources that is agreed by the leadership team, management are able to see gaps in capacity and identify areas of risk which enables them to make effective strategic decisions.

Last year, 10% of respondents did not know when their counter fraud and corruption plan was last approved, and this year this has dropped slightly to 9%. Of those who responded to the survey, 56% agreed their counter fraud and corruption plan was approved within the last 12 months, and 21% stated that their plan would be approved post 2017/18.

## When did you last have your counter fraud and corruption plan approved?



## CIPFA Recommends

- Public sector organisations need to remain vigilant and determined in identifying and preventing fraud in their procurement processes. Our survey showed this to be one of the prime risk areas and practitioners believe this fraud to be widely underreported.
- Effective practices on detecting and preventing adult social care fraud should be shared and adopted across the sector. Data matching is being used by some authorities with positive results.
- All organisations should ensure that they have a strong counter-fraud leadership at the heart of the senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively.
- Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement.
- The importance of the work of the fraud team should be built into both internal and external communication plans. Councils can improve their budget position and reputations by having a zero-tolerance approach.



## Appendix 1: Fraud types and estimated value/volume

The table below shows the types of frauds reported in the survey and the estimated volume and value during 2017/18.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	–	–

## Appendix 2: Methodology

This year's results are based on responses from 144 local authorities. An estimated total volume and value of fraud has been calculated for all local authorities in England, Wales, Scotland and Northern Ireland. Missing values are calculated according to the size of the authority. For each type of fraud, an appropriate universal measure of size has been selected such as local authority housing stock for housing frauds.

From the responses, the number of cases per each unit of the measure is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value. As an illustration, if the number of

housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000 then the total estimated value of fraud for that authority is £1m.



## Appendix 3: Glossary

### Adult social care fraud

Adult social care fraud can happen in a number of ways but the increase in personal budgets gives a greater opportunity for misuse.

Investigations cover cases where:

- direct payments were not being used to pay for the care of the vulnerable adult
- care workers were claiming money for time they had not worked or were spending the allocated budget inappropriately.

### Blue Badge fraud

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered and are issued to those with disabilities in order that they can park nearer to their destination.

Blue Badge fraud covers abuse of the scheme, including the use of someone else's Blue Badge, or continuing to use or apply for a Blue Badge after a person's death.

### Business rates fraud

Business rates fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to separate between evasion and avoidance. Business rates fraud covers any fraud associated with the evasion of paying business rates including, but not limited to, falsely claiming relief and exemptions where not entitled.

### Cautions

Cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance.

### Council tax fraud

Council tax is the tax levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland.

Council tax fraud is split into three sections.

- **council tax single person discount (SPD)** – where a person claims to live in a single-person household when more than one person lives there
- **council tax reduction (CTR) support** – where the council tax payer claims incorrectly against household income
- **other types of council tax fraud** – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

### Debt fraud

Debt fraud includes fraudulently avoiding a payment of debt to an organisation, excluding council tax discount.

### Disciplinary outcomes

Disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team, disciplinary action is undertaken, or where a subject resigns during the disciplinary process.

### Economic and voluntary sector (grant fraud)

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation.

### Housing fraud

Fraud within housing takes a number of forms, including sub-letting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, abandonment, or right to buy.

### **Insurance fraud**

This fraud includes any insurance claim that is proved to be false, made against the organisation or the organisation's insurers.

### **Mandate fraud**

Action Fraud states that: "mandate fraud is when someone gets you to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation you make regular payments to, for example a subscription or membership organisation or your business supplier".

### **Manipulation of data fraud**

The most common frauds within the manipulation of data relate to employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation. It also includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend.

### **No recourse to public funds fraud**

No recourse to public funds prevents any person with that restriction from accessing certain public funds. A person who claims public funds despite such a condition is committing a criminal offence.

### **Organised crime**

The Home Office defines organised crime as "including drug trafficking, human trafficking and organised illegal immigration, high value fraud and other financial crimes, counterfeiting, organised acquisitive crime and cyber crime".

### **Procurement fraud**

This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or organisations in the 'purchase to pay' or post contract procedure, including contract monitoring.

### **Right to buy**

Right to buy is the scheme that allows tenants that have lived in their properties for a qualifying period the right to purchase the property at a discount.

### **Welfare assistance**

Organisations have a limited amount of money available for welfare assistance claims so the criteria for applications are becoming increasingly stringent. Awards are discretionary and may come as either a crisis payment or some form of support payment.

### **Whistleblowing**

Effective whistleblowing allows staff or the public to raise concerns about a crime, criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.



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**Bolsover District Council**

**Audit Committee**

**20th November 2018**

**Strategic Risk Register and Partnership Arrangements**

**Report of the Head of Finance & Resources**

This report is public

**Purpose of the Report**

- To enable the Audit Committee to consider the attached report concerning the Strategic Risk Register which will be considered by Executive at its meeting of 3 December 2018.

**1 Report Details**

- 1.1 To update Members of the Audit Committee concerning the Strategic Risk Register. Any comments expressed by the Audit Committee will be taken into account in developing both the Council's risk management reports and wider risk management arrangements.

**2 Conclusions and Reasons for Recommendation**

- 2.1 These are detailed in the attached report.

**Reasons for Recommendation**

- 2.2 To ensure that the Audit Committee are kept informed concerning the Council's latest position regarding Risk Management and Partnership working and are able to exercise effective influence on the Council's Risk Management arrangements.

**3 Consultation and Equality Impact**

**Consultation**

- 3.1 There are no issues arising from this report which necessitate a detailed consultation process.

**Equalities**

- 3.2 There are no direct implications arising from this report.

#### **4 Alternative Options and Reasons for Rejection**

4.1 These are detailed in the attached report.

#### **5 Implications**

##### **5.1 Finance and Risk Implications**

###### **Financial**

These are detailed in the attached report.

###### **Risk**

These are detailed in the attached report.

##### **5.2 Legal Implications including Data Protection**

These are detailed in the attached report.

##### **5.3 Human Resources Implications**

These are detailed in the attached report.

#### **6 Recommendations**

6.1 That the Audit Committee note the report and make any comments that they believe to be appropriate with regards to the attached report which will be considered by Executive at its meeting on 3 December 2018.

#### **7 Decision Information**

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>Has the relevant Portfolio Holder been informed</b>	Yes
<b>District Wards Affected</b>	None directly
<b>Links to Corporate Plan priorities or Policy Framework</b>	All

**8 Document Information**

Appendix No	Title	
1	Executive Report 3 December 2018 –Strategic Risk Register and Partnership Arrangements	
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)		
Service Plan Risk Registers Strategic Risk Register		
Report Author		Contact Number
Dawn Clarke – Head of Finance & Resources		7658

**Bolsover District Council**

**Executive**

**3 December 2018**

**Strategic Risk Register and Partnership Arrangements**

This report is public

**Report of Cllr B Watson, Portfolio Holder with Responsibility for Finance & Resources**

**Purpose of the Report**

- To update Members concerning the current position regarding Risk Management and Partnership Arrangements and to seek approval for the revised Strategic Risk Register as at 30 September 2018, as part of the suite of Finance, Performance and Risk reports.

**1 Report Details**

**Background**

- 1.1. The Council's Strategic Risk Register has been developed in the light of a consideration of the strategic and operational risks which have been identified by Elected Members and Officers as part of the Council's risk, service management and quarterly performance arrangements.
- 1.2. In its approach to Risk Management, the Council is seeking to secure a number of objectives and to operate in line with recognised best practice. In order to appreciate the importance of Risk Management it is useful to reiterate these objectives:
  - To improve the way in which the Council manages its key risks so as to reduce the likelihood of them happening, and to mitigate their impact in those cases where they do materialise. This is a key element in protecting service delivery arrangements, the financial position and the reputation of the Council.
  - To strengthen the overall managerial arrangements of the Council. From a Governance perspective the effective operation of Risk Management is a key element of the managerial framework operating within an authority.

- Effective Risk Management is a key component in ensuring that organisations are able to achieve their objectives, and that key projects proceed in line with plan.
- The identification of the risks attached to existing service delivery, or to a project or new initiative helps enable a fully informed decision to be made, and helps ensure that all appropriate measures to mitigate (or reduce) the risk are in place from the outset.
- Finally, an appreciation of the risk environment within which the Council operates assists in ensuring the organisation has a good awareness of its overall risk exposure, whilst helping determine an appropriate level of financial reserves.

### The Strategic Risk Register

- 1.3. The revised Strategic Risk Register as at 30 September 2018 is set out in **Appendix 1** for consideration by Executive. The intention is that this review of the Register will secure the following objectives:
  - Identify any newly emerging risks which need to be added to the Register and removing any risks that have been resolved to maintain a focus on current risks.
  - To revisit risk scores assessments and ensure that appropriate mitigation remains in place.
- 1.4. Overall a key theme which emerges from the Strategic Risk Register is one of an ongoing requirement to maintain our current performance in respect of service delivery, performance and governance and of ensuring that the Council mitigates the risk of a catastrophic event or service failure impacting upon our community. This objective needs to be secured against a background of both declining and less certainty concerning financial resources. Allied to the financial position local authorities are faced with significant legislative change impacting upon Housing, Planning, the welfare system, devolution and finance. These developments are anticipated to entail some significant changes in the manner in which our services to local residents are delivered with the level of change required clearly having the potential to disrupt service provision.
- 1.5 During the recent round of Quarterly Performance meeting one of the key issues discussed was the uncertainties associated with Brexit, the roll out of Universal Credit, the pace of legislative change and the ability to recruit and retain appropriately qualified staff were all viewed as remaining of concern. In addition, in light of the level of savings that needed to be identified over the period of the current MTFP, concerns were reiterated regarding the challenges in respect of securing these savings, against a background in which



some services were experiencing increased pressures as a result of other agencies withdrawing services. The uncertainties arising from Brexit, the roll out of Universal Credit and legislative changes are incorporated within the same Strategic Risk (Risk 1) as outlined in Appendix 1. The issue of the loss of key staff and the difficulties being experienced in finding suitable replacements continues to be a widespread concern expressed by managers. This issue already featured within the Strategic Risk Register and is detailed as Strategic Risk 5 within Appendix 1, while the issue of financial pressures is covered by Strategic Risk 2 within Appendix 1.

- 1.6 There were no new risks added to the Strategic Risk Register but risk number 9 relating to HS2 has been amended to reflect the publication of the Working Draft Environmental Statement.
- 1.7 In order to develop the understanding of risk together with a culture of risk management throughout the organisations a series of training sessions for senior managers which covered the issue of Risk Management were held in early summer 2017. Likewise, as part of the Budget Scrutiny Meeting in September 2015 there was a presentation to Members concerning Risk Management. A further series of training will be undertaken during the next year.

#### **Partnership Arrangements.**

- 1.8 As part of the Council's Risk Management (including Partnership Working) Strategy a range of strategic partnerships are reported on and monitored within the Council's quarterly report in respect of Risk. These are complementary to the Partnership Funding and Performance Monitoring reports prepared by the Partnership Team to Executive twice a year which sets out the range of partnerships it works directly with. While the Partnership Team co-ordinate the Council's work with these external organisations it should be noted that many of these have been assessed as being of relatively limited risk, with officers adopting a 'light touch' approach in developing appropriate working relationships.
- 1.9 While there will invariably be an overlap between the two reports but this report will focus on what might be termed as the Council's strategic partnerships. These are as follows:
  - The relationship with the North Midlands authorities (Derbyshire and Nottinghamshire) and Sheffield City Region in progressing the economic development and devolution agenda.
  - The strategic alliance with North East Derbyshire District Council which is central to the transformation agenda of delivering services at lower costs whilst enhancing service resilience.
  - Arrangements with Derbyshire County Council amongst others to secure aligned services across the public sector in areas such as health and economic development.

- The Community Safety Team and associated statutory partners including the Police.

Although the Partnerships outlined above are very different in terms of scope and working arrangements they all have in place formal governance arrangements between the partners, supported by appropriate internal governance arrangements which cover performance, finance and risk. Appropriate approvals have been agreed through the Council's formal committee arrangements, with partnership issues and developments being considered as is required within this Council's constitution. The arrangements in place are intended to be both risk based and proportionate to the risk exposure of this Council.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 The Strategic Risk Register is intended to highlight those areas where the Council needs to manage its risks effectively. One of the key purposes of this report is to set out the risks that have been identified (see Appendix 1) and to encourage both Members and Officers to actively consider whether the Strategic Risk Register and supporting Service Risk Registers appropriately cover all of the issues facing the Council. The section of Partnerships serves to highlight the extent of these working arrangements, together with the mechanisms which are in place for their successful management.

### **Reasons for Recommendation.**

- 2.2 To enable Executive to consider the risks identified within the Strategic Risk Register / Partnership Arrangements in order to assist in maintaining effective governance arrangements, service and financial performance.

## **3 Consultation and Equality Impact**

### **Consultation**

- 3.1 There are no issues arising from this report which necessitate a formal consultation process.

### **Equalities**

- 3.2 There are no equalities issues arising directly out of this report.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 Under the relevant good practice and to facilitate the development of robust managerial arrangements the Council is required to prepare a Strategic Risk Register as part of its risk management framework. This report is in part intended for Members and Officers to consider whether

the Council has adopted an appropriate approach to its management of risk and partnerships. Given that this report is part of the approach to help ensure the effective management of risk / partnerships there is not an alternative to the presentation of a formal report.

## **5 Implications**

### **5.1 Finance and Risk Implications**

#### **Financial**

There are no additional financial implications arising out of this report at this stage. While where appropriate additional mitigation measures have been identified and implemented during the course of preparing the Strategic and Operational Risk Registers, the cost of implementing this mitigation will be met from within previously agreed budgets.

#### **Risk**

Risk Management Issues are covered throughout the body of the main report.

### **5.2 Legal Implications including Data Protection**

There are no legal or data protection issues arising directly out of this report.

### **5.3 Human Resources Implications**

There are no human resource issues arising directly out of this report.

## **6 Recommendations**

- 6.1 That Executive approves the Strategic Risk Register as at 30 September 2018 as set out in Appendix 1.

## **7 Decision Information**

<p><b>Is the decision a Key Decision?</b>  A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><i>BDC:      Revenue - £75,000</i>                    <i>Capital - £150,000      <input type="checkbox"/></i></p> <p><i>NEDDC: Revenue - £100,000      <input type="checkbox"/></i>                    <i>Capital - £250,000      <input type="checkbox"/></i></p> <p><input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p><b>Is the decision subject to Call-In?</b>  (Only Key Decisions are subject to Call-In)</p>	No
<p><b>Has the relevant Portfolio Holder been informed</b></p>	Yes
<p><b>District Wards Affected</b></p>	None directly

<b>Links to Corporate Plan priorities or Policy Framework</b>	All
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**Document Information**

<b>Appendix No</b>	<b>Title</b>
1	Strategic Risk Register as at 30 June 2018
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Service Plan Risk Registers	
<b>Report Author</b>	<b>Contact Number</b>
Dawn Clarke – Head of Finance & Resources	01246 217658

## STRATEGIC RISK REGISTER SUMMARY AS AT: 30 September 2018

	<b>Risk</b>	<b>Consequences</b>	<b>Risk Score (Likelihood x Impact)</b>	<b>Risk Score (Likelihood x Impact) Taking into Account Current Controls</b>	<b>Risk Owner / Lead Officer</b>
1	Government Legislation / Parliamentary uncertainty / impact of Brexit / adverse external economic climate has an accelerating impact on Council (poor financial settlement), or upon the local economy, to which Council is unable to adopt an appropriate change of Strategic direction.	<ul style="list-style-type: none"> <li>• Unable to deliver a package of services that meet changing local needs and aspirations.</li> <li>• Reduced influence over delivery of local services.</li> <li>• Unable to effectively support local communities.</li> <li>• Increased demands on Council services at a time when Council resource base is reducing.</li> </ul>	4,4, <b>16</b>	3,4 <b>12</b>	SAMT / Political Leadership
	<ul style="list-style-type: none"> <li>• The Council is outward looking and actively works to understand proposed changes and the approaches that might be adopted to mitigate any adverse impacts of these.</li> <li>• The Council has effective political and managerial (governance) arrangements in place to manage change.</li> <li>• Appropriate levels of financial reserves / investment funding are maintained to fund strategic shifts in service delivery.</li> <li>• Effective engagement with staff to ensure they embrace necessary change.</li> </ul>				

2	Failure to deliver a balanced budget in line with the MTFP, at a time when the Council's reserves are limited to 'adequate' levels.	<ul style="list-style-type: none"> <li>• Impact upon ability to deliver current level of services.</li> <li>• Unable to resource acceptable levels of service.</li> <li>• Significant adverse reputational Impact.</li> </ul>	4,4 <b>16</b>	3,4 <b>12</b>	Political Leadership / Chief Executive / Chief Financial Officer / SAMT
<ul style="list-style-type: none"> <li>• The Council has effective financial and wider management arrangements in place to ensure budget / service delivery arrangements are robust.</li> <li>• The current MTFP indicates challenging but manageable savings targets. A key risk is that under 'localism' there is less certainty concerning income (NNDR, NHB).</li> <li>• The Council has 'adequate' financial reserves in place to cushion against any loss of income for a period of at least one financial year.</li> </ul>					
3.	The Council is affected by a operational service failure which has a major impact upon the local community, this impact being reflected in the Council's sustainability and reputation. Failure could arise from services – inc Data Protection – failing to adhere to best practice. Resulting in a potential impact upon the Council's ability to secure its	<ul style="list-style-type: none"> <li>• A significant service failure associated with a major impact on the local community, leading to a wider detrimental corporate impact.</li> <li>• Deterioration in services to the public, potentially a major initial impact upon a local resident or a group of local residents.</li> <li>• Significant staff and financial resources required to resolve position, impacting on other services.</li> <li>• A major service has its operating capacity significantly impact and is required to introduce major reform in its approach to service delivery.</li> </ul>	3,5 <b>15</b>	2,5 <b>10</b>	SAMT / Assistant Directors

	<p>corporate objectives. Given the efficiency measures that have been introduced to date this is considered to be an increasing issue for the Council.</p>				
	<ul style="list-style-type: none"> <li>• The Council has appropriate managerial arrangements in place supported by staff recruitment and training to ensure these risks are effectively managed.</li> <li>• The Council has a Performance Management Framework in place to help ensure that services are delivered in line with good practice and industry standards. On going monitoring and regular reporting will help ensure that any emerging issues re service performance are effectively identified and resolved at the earliest possible opportunity.</li> </ul>				
4	<p>It becomes increasingly difficult to recruit to key posts or to replace key staff who leave. Staff morale is adversely affected by as a result of pace of change, tightening financial circumstances or external circumstances.</p>	<ul style="list-style-type: none"> <li>• Deterioration in services to the public.</li> <li>• Increasing inefficiencies in service provision.</li> <li>• Weakening of Internal Control arrangements.</li> <li>• Increased pressure on other members of staff.</li> </ul>	3,4 12	2,4 8	SAMT / Asst Director HR
	<ul style="list-style-type: none"> <li>• The Council has effective communication and working with staff as validated by securing 'silver' accreditation at IIP.</li> <li>• There is sufficient funding to bring in agency staff where required to maintain service performance.</li> <li>• At this stage the problematic areas are those where there are national 'shortages'. In the majority of areas it has proved possible to recruit appropriate replacement staff.</li> <li>• Appropriate training budgets are in place to ensure that staff receive necessary training to maintain service quality.</li> </ul>				

	<ul style="list-style-type: none"> <li>The Council will look at introducing appropriate apprenticeship / training schemes in order to develop employees to meet our requirements.</li> </ul>				
5	<p>Delivery of the Council's Agenda is dependent upon effective delivery of both a number of major initiatives / projects and implementing a range of new government reforms whilst maintaining service quality, which may overstretch our reduced organisational capacity.</p>	<ul style="list-style-type: none"> <li>New initiatives are not delivered in a cost-effective manner.</li> <li>Failure to maintain / improve services in line with local aspirations.</li> <li>Failure to generate the savings required to balance the budget.</li> <li>Financial savings measures weaken Governance / Internal Control arrangements.</li> <li>Service deterioration / failure arising from capacity issues.</li> </ul>	3,4 <b>12</b>	2,4 <b>8</b>	SAMT / Chief Executive
	<ul style="list-style-type: none"> <li>The Council has effective prioritisation and project management arrangements in place to ensure resources are directed at key objectives.</li> <li>The Council has made efforts to ensure effective use of employees by utilising shared services to protect service resilience, by maintaining appropriate training arrangements and by investing in transformational ICT projects.</li> <li>The Council has a robust performance management framework intended to highlight emerging issues.</li> </ul>				
6	<p>Emergency Planning and Business Continuity arrangements fail to meet required standards when tested by flu</p>	<ul style="list-style-type: none"> <li>Inability of Council to provide services as a consequence of a severe catastrophic external event (e.g. flooding, major terrorist incident, flu pandemic, fire).</li> <li>Failure of IT infrastructure, leading to inability to effectively operate</li> </ul>	3,4 <b>12</b>	2,4 <b>8</b>	Chief Executive / SAMT



	<p>pandemic, natural disaster (flood), etc.</p> <p>The Council is exposed to cyber crime with a loss of data / systems resulting in a potential inability to provide core services and incurring reputational damage.</p>	<p>services and to safeguard income streams.</p> <ul style="list-style-type: none"> <li>• Business Continuity Plans prove ineffective in practice.</li> </ul>			
	<ul style="list-style-type: none"> <li>• The Council works in partnership with a range of partners on its Emergency Planning arrangements to ensure that we operate in line with best practice. There is an annual 'desktop' scenario to test officers understanding of the arrangements and that they are fit for purpose in a realistic 'trial' scenario.</li> <li>• All sections have Business Continuity plans in place which identify key risks and mitigation. Corporate IT systems have been tested against Industry standards for Business Continuity.</li> <li>• The Council works in partnership with a range of other agencies that should be able to provide support in the event of the Council's own procedures failing to be effective.</li> <li>• The Council has put in place industry standard measures to minimise the risk of cyber crime.</li> </ul>				
7	<p>Lack of strategic direction from Members / Corporate Management, external partners change Strategic direction.</p>	<ul style="list-style-type: none"> <li>• Failure to deliver high quality services which address national and local priorities.</li> <li>• Deterioration in Governance Arrangements.</li> <li>• Refocus of current services necessary with associated disruption.</li> </ul>	3,4 <b>12</b>	2,4 <b>8</b>	Chief Executive / Political Leadership Team
	<ul style="list-style-type: none"> <li>• There are appropriate structured training arrangements in place for both Members and Officers.</li> <li>• The Council is an outward looking organisation where both Members and Officers are encouraged to network with peer groups to ensure a developed awareness of the broader environment within which we operate.</li> </ul>				

8	Governance Arrangements including Performance, Finance and Risk Management need to be maintained in order to continue to operate effectively in a rapidly changing environment.	<ul style="list-style-type: none"> <li>• Adverse Impact upon Service Quality.</li> <li>• Failure to deliver high quality services which address national and local priorities.</li> <li>• Significant adverse reputational impact.</li> </ul>	3,4 <b>12</b>	2,4 <b>8</b>	Chief Financial Officer / Monitoring Officer
<ul style="list-style-type: none"> <li>• The Council has appropriate managerial arrangements in place supported by staff recruitment and training to ensure these risks are effectively managed.</li> <li>• The Council has an active Standards and Audit Committee which provide independent review of the Governance arrangements in the Council.</li> <li>• The Annual Governance Report sets out an evidence based structured assessment of the operation of the Council's governance arrangements.</li> </ul>					
9	HS2 - Without considerable environmental mitigation measures, HS2 will have a significant impact on the visual amenity of the district, disruption to businesses, home owners and communities. It also has the potential to sterilise areas of development due to uncertainty. Impact on the motorway and	Without considerable environmental mitigation measures will have a negative impact on the visual amenity of the district, disruption to businesses, home owners and communities. It also has the potential to sterilise areas of development due to uncertainty.	4,5, <b>20</b>	4,5, <b>20</b>	SAMT / Political Leadership

	<p>main arterial routes during construction.</p> <p>Following the release of the Working Draft Environmental Statement, potential impacts and land take have increased. Therefore the impact score has been adjusted to reflect this.</p>				
	<ul style="list-style-type: none"> <li>• CEX and senior management actively engaged with HS2 staff to discuss proactive business mitigation measures.</li> <li>• Political leadership working with relevant community groups and agencies lobbying for enhanced mitigation measures.</li> <li>• Contributing to the East Midlands HS2 growth strategy and also that we part of the mitigation study</li> </ul>				
10	<p>Failure to have in place robust, comprehensive and up to date policies and procedures for safeguarding children and vulnerable adults.</p>	<ul style="list-style-type: none"> <li>• Profile of safeguarding is poor</li> <li>• Staff and members do not know what safeguarding is and their role within it</li> <li>• Staff and members do not know how to spot the signs</li> <li>• Staff and members do not know how to report it and to who?</li> <li>• Lack of public confidence in Council policies plans and staff</li> <li>• Reputational damage</li> <li>• Potential significant harm to individuals resulting from abuse and neglect of Children and/or Vulnerable Adults possibly leading to personal harm, injury and death</li> </ul>	4,4, <b>16</b>	2,4, <b>8</b>	SAMT/Political Leadership

	<ul style="list-style-type: none"> <li>• The Council has in place up to date policies for safeguarding both Children and Vulnerable Adults. These policies are aligned to DCC policies which in turn are in line with legislation, regulation and statutory duties placed on Local Authorities.</li> <li>• The Council has in place and maintain systems of working practice to safeguard children and vulnerable adults at Council activities and those who receive Council services.</li> <li>• Staff recognised as appropriate to do, are DBS/CRB checked</li> <li>• All staff receive mandatory safeguarding training</li> <li>• Safeguarding is widely promoted and embedded throughout the organisation with all staff being issued with a wallet sized 'safeguarding quick reference guide' which details what to look out for and what to do</li> <li>• The Council has an internal safeguarding group which meets quarterly which has representation from all service areas of the Council.</li> <li>• The Council host and Chair the Countywide Derbyshire Safeguarding Leads Sub Group of the Derbyshire Safeguarding Childrens Board and Derbyshire Safeguarding Adults Board</li> <li>• The Council are represented on both the Derbyshire Safeguarding Children's Board (DSCB) and the Derbyshire Safeguarding Adults Board ( DSAB)</li> </ul>				
11	Failure of BDC Local Plan to be found sound at independent examination.	<ul style="list-style-type: none"> <li>• Potential Government intervention</li> <li>• Undermining the local plan</li> <li>• Reputational damage</li> <li>• Loss of control of planning and development</li> </ul>	4,4, 16	2,4, 8	SAMT / Political Leadership
	<ul style="list-style-type: none"> <li>• At an advanced stage in preparation of the Local Plan. Public consultation on the main document took place in May 2018, and submitted at the end of August 2018.</li> <li>• Successfully avoided Government intervention in the plan-making process and it is important that the revised timetable continues to be met.</li> <li>• The Council has taken reasonable steps in the preparation of the Plan to ensure that it is based on sound evidence and meets procedural and legal requirements. This has included taking external legal advice and securing an advisory visit with the Planning Inspectorate.</li> </ul>				

**Bolsover District Council**

**Audit Committee**

**20th November 2018**

**Role and Effectiveness of the Audit Committee**

**Report of the Head of Finance & Resources**

This report is public

**Purpose of the Report**

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

**1 Report Details**

1.1 CIPFA have recently produced new guidance in respect of Audit Committees (Appendix 1). The publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and represents best practice for audit committees throughout the UK. This guidance replaces the previous 2013 guidance.

1.2 The guidance emphasises the role and importance of an Audit Committee:

*"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. Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation."*

1.3 The guidance also covers:

- CIPFA's Position Statement : Audit Committees in Local Authorities and Police
- The purpose of Audit Committees
- The core functions of an Audit Committee
- Possible wider functions of an Audit Committee

- Independence and Accountability
- Membership and effectiveness

1.4 Appendix D of CIPFA'S publication includes a self-assessment of good practice. This provides a high level review that incorporates the key principles set out in CIPFA's position statement and publication. Where an Audit Committee has a high degree of performance against the good practice principles, then it is an indicator that the Committee is soundly based and has in place a knowledgeable membership. These are essential factors in developing an effective audit committee.

1.4 It is proposed that the self-assessment of good practice in the new guidance is completed. Appendix 2 is a replication of the new self-assessment of good practice. Once completed, this will be reviewed and if necessary, an action plan will be presented to a future meeting of the Audit Committee.

## **2 Conclusions and Reasons for Recommendation**

2.1 To inform Members of CIPFA'S new publication "Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition" and to enable the Audit Committee to undertake a self-assessment.

## **3 Consultation and Equality Impact**

### **Consultation**

3.1 There are no issues arising from this report which necessitate a detailed consultation process.

### **Equalities**

3.2 There are no direct implications arising from this report.

## **4 Alternative Options and Reasons for Rejection**

4.1 The report is for information.

## **5 Implications**

### **5.1 Finance and Risk Implications**

#### **Financial**

There are no direct implications arising from this report.

#### **Risk**

There are no direct implications arising from this report. However, failure to have in place an effective audit committee would increase governance risk to the Council.

## 5.2 Legal Implications including Data Protection

There are no direct implications arising from this report.

## 5.3 Human Resources Implications

There are no direct implications arising from this report.

## 6 Recommendations

6.1 That the Audit Committee note the new CIPFA guidance for Local Authority Audit Committees.

6.2 That the Audit Committee undertake the self-assessment in Appendix 2 of the report.

6.3 That the completed self-assessment is reviewed and if necessary, an action plan be presented to a future meeting of the Audit Committee.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC:</i> <i>Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC:</i> <i>Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>Has the relevant Portfolio Holder been informed</b>	Yes
<b>District Wards Affected</b>	None directly
<b>Links to Corporate Plan priorities or Policy Framework</b>	All

**8 Document Information**

Appendix No	Title
1	Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition
2	Audit Committee Self Assessment
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
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# audit committees

Practical Guidance for  
Local Authorities and Police  
2018 Edition



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# audit committees

Practical Guidance for  
Local Authorities and Police  
2018 Edition

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

A handwritten signature in black ink that reads "Diana Melville". The signature is written in a cursive, flowing style.

**Diana Melville**

Governance Advisor, CIPFA



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# CHAPTER 1

## Introduction

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

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

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

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



# The purpose of audit committees

### Extract from the Position Statement

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

The overall aim of good governance is to ensure that:

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

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

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

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

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

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

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

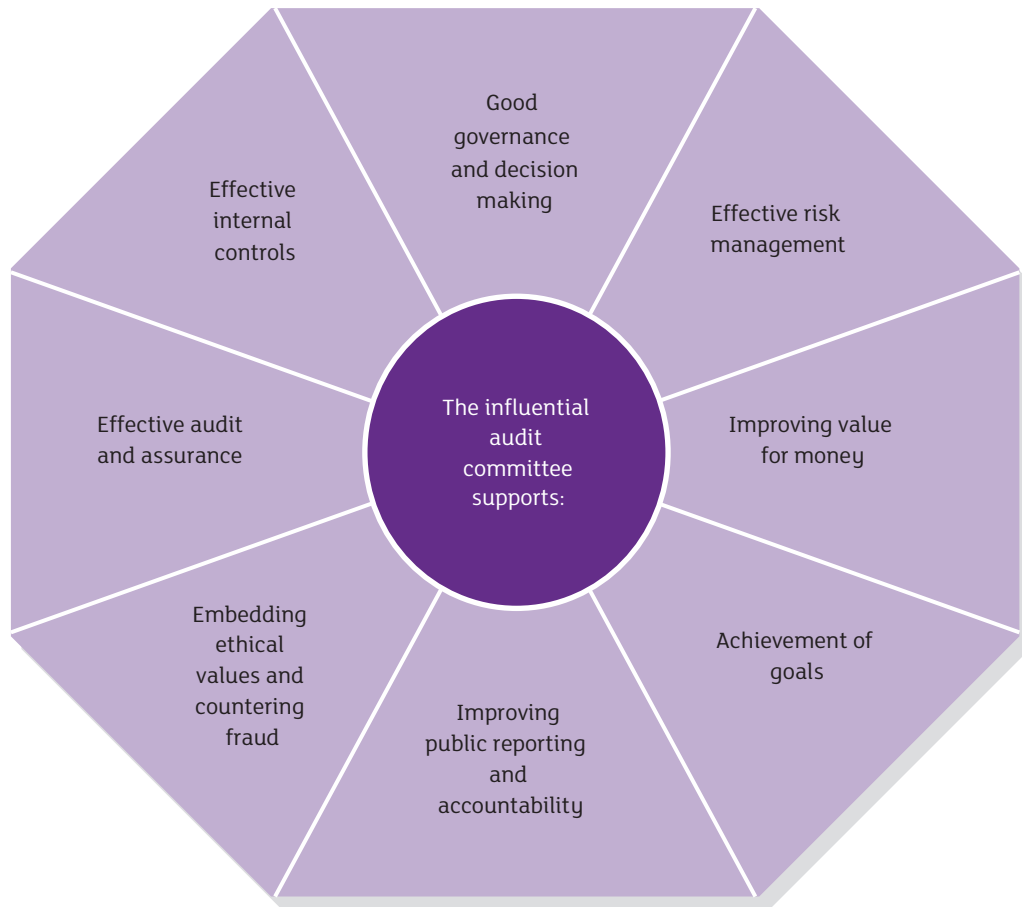
The principal areas where the committee can influence and add value are:

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



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

**Figure 3.1: The influential audit committee**



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

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



# The core functions of an audit committee

### Extract from the Position Statement

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

## INTRODUCTION

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

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

## GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

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

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

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

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

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

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

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

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

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

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

## INTERNAL AUDIT

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

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

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

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

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

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

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

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

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

### **Oversee independence, objectivity, performance and professionalism**

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

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

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

## Support the effectiveness of the internal audit process

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

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

## Promote the effective use of internal audit within the assurance framework

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

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

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

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

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

## RISK MANAGEMENT

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

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

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

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



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

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

## ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

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

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

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

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

## VALUE FOR MONEY AND BEST VALUE

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

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

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

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

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

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

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

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

## COUNTERING FRAUD AND CORRUPTION

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

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

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

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

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

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

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

## EXTERNAL AUDIT

### Appointment of auditors

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

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

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

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

## Monitoring the external audit process

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

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

## Supporting independence

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

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

## Understanding the potential threats to external independence

### Self-interest threat

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

### Self-review threat

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

### Management threat

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

### Advocacy threat

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

### Familiarity (or trust) threat

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

### Intimidation threat

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

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

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

## Receiving and considering the work of external audit

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

## Supporting the quality and effectiveness of the external audit process

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

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

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

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

### Inspection reports

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

## FINANCIAL REPORTING

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

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

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

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

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

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

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

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

## PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

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

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

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



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

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

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

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

## GOVERNANCE AND ETHICAL VALUES

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

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

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

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



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

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

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

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



# Possible wider functions of an audit committee

## Extract from the Position Statement

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

## CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

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

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

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

## ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

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

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

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

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

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

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

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

## TREASURY MANAGEMENT

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

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

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

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

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

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

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



# Independence and accountability

### Extract from the Position Statement

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

## INTRODUCTION

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

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

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

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

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

## SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

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

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

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

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



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

### Impact of other legislation

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

### Other relevant recommendations

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

## STRUCTURE AND INDEPENDENCE

### Local authorities

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

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

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

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

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

### **Combined authorities**

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

### **Police**

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

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## **SHARED AUDIT COMMITTEES**

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

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## **AUDIT COMMITTEES IN PARTNERSHIP**

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

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## **DECISION-MAKING POWERS AND DELEGATIONS**

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

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

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

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

## ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

### Agenda management and frequency of meetings

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

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

### Supporting the audit committee and key relationships

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

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

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

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

A public sector requirement within the PSIAS states:

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

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

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

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

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

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

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

## ACCOUNTABILITY

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

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

### Supporting the authority's accountability to the public and stakeholders

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

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

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

### Supporting accountability within the authority

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

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

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

### **Holding the audit committee to account**

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

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

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

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

# Membership and effectiveness

## Extract from the Position Statement

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

## COMPOSITION AND OPERATION OF THE COMMITTEE

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

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

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



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

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

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

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

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

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

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



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

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

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

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

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

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

### **Voting rights of independent members**

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

### **Recruitment process**

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

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

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

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

## KNOWLEDGE AND EXPERIENCE

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

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

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

### Skills and competencies

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

## Self-assessment and training

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

## Role of the chair

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

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

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

## DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

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

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

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

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

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

## COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

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

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

For police audit committees, the top three barriers were:

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

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

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

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

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

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

## APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

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

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

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





APPENDIX A

# Sector and devolved government guidance

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

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

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

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

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

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

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

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

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

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

## Local authorities in Wales

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

## Local authorities in Scotland

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

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

## Local authorities in Northern Ireland

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

## Police in England

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

## Police in Wales

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



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



# Suggested terms of reference – local authorities and police

## INTRODUCTION

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

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account.

Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

## SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

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### Governance

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

### Statement of purpose

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

## Governance, risk and control

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

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

## Internal audit

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

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

### **External audit**

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

## Financial reporting

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

## Accountability arrangements

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

## SUGGESTED TERMS OF REFERENCE – POLICE

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

### Statement of purpose

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

## Governance, risk and control

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

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

## Internal audit

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

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

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

### **External audit**

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

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

### **Financial reporting**

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

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

### **Accountability arrangements**

The committee will do the following:

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



# Audit committee members – knowledge and skills framework

## CORE AREAS OF KNOWLEDGE

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

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

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<ul style="list-style-type: none"> <li>■ Understanding of the principles of risk management, including linkage to good governance and decision making</li> <li>■ Knowledge of the risk management policy and strategy of the organisation</li> <li>■ Understanding of risk governance arrangements, including the role of members and of the audit committee</li> </ul>	<ul style="list-style-type: none"> <li>■ 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</li> <li>■ 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</li> <li>■ The committee should also review reports and action plans to develop the application of risk management practice</li> </ul>
Counter fraud (Chapter 4)	<ul style="list-style-type: none"> <li>■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed</li> <li>■ Knowledge of the principles of good fraud risk management practice in accordance with the <a href="#">Code of Practice on Managing the Risk of Fraud and Corruption</a> (CIPFA, 2014)</li> <li>■ Knowledge of the organisation’s arrangements for tackling fraud</li> </ul>	<ul style="list-style-type: none"> <li>■ 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</li> <li>■ 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</li> </ul>
Values of good governance (Chapter 5)	<ul style="list-style-type: none"> <li>■ Knowledge of the Seven Principles of Public Life</li> <li>■ Knowledge of the authority’s key arrangements to uphold ethical standards for both members and staff</li> <li>■ Knowledge of the whistleblowing arrangements in the authority</li> </ul>	<ul style="list-style-type: none"> <li>■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS</li> <li>■ 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</li> </ul>

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

## SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

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

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

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

## CORE SKILLS

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

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> <li>■ Support the use of plain English in communications, avoiding jargon, acronyms, etc</li> </ul>	<ul style="list-style-type: none"> <li>■ The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience</li> </ul>
Objectivity	<ul style="list-style-type: none"> <li>■ Evaluate information on the basis of evidence presented and avoiding bias or subjectivity</li> </ul>	<ul style="list-style-type: none"> <li>■ 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</li> </ul>
Meeting management skills	<ul style="list-style-type: none"> <li>■ Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting</li> </ul>	<ul style="list-style-type: none"> <li>■ 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</li> </ul>





# Self-assessment of good practice

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

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

Good practice questions		Yes	Partly	No
<b>Audit committee purpose and governance</b>				
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?			
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

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

**Membership and support**

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

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



# Evaluating the effectiveness of the audit committee

**Assessment key**

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

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

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

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



### Self-Assessment of Good Practice

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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 Question		Yes	Partly	No
<i>Audit committee purpose and governance</i>				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council?			
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?			
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	<ul style="list-style-type: none"> <li>• Good governance</li> </ul>			
	<ul style="list-style-type: none"> <li>• Assurance framework, including partnerships and collaboration arrangements</li> </ul>			
	<ul style="list-style-type: none"> <li>• Internal Audit</li> </ul>			

Good Practice Question		Yes	Partly	No
	<ul style="list-style-type: none"> <li>External Audit</li> </ul>			
	<ul style="list-style-type: none"> <li>Financial Reporting</li> </ul>			
	<ul style="list-style-type: none"> <li>Risk Management</li> </ul>			
	<ul style="list-style-type: none"> <li>Value for money or best value</li> </ul>			
	<ul style="list-style-type: none"> <li>Counter-fraud and corruption</li> </ul>			
	<ul style="list-style-type: none"> <li>Supporting the ethical framework</li> </ul>			
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 of CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
<i>Membership and support</i>				
12	Has an effective audit committee structure and composition of the committee been selected?			
	This should include:			
	<ul style="list-style-type: none"> <li>Separation from the executive</li> </ul>			
	<ul style="list-style-type: none"> <li>An appropriate mix of knowledge and skills among the membership</li> </ul>			
	<ul style="list-style-type: none"> <li>A size of a committee that is not unwieldy</li> </ul>			
	<ul style="list-style-type: none"> <li>Consideration has been given to the inclusion of at least one independent member(where it is not already a mandatory requirement).</li> </ul>			

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Good Practice Question	Yes	Partly	No
13 Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?			
14 Does the chair of the committee have appropriate knowledge and skills?			
15 Are arrangements in place to support the committee with briefings and training?			
16 Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
18 Is adequate secretariat and administrative support to the committee provided?			
19 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20 Are meetings effective with a good level of discussion and engagement from all the members?			
21 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
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