

CIPFA's POSITION STATEMENT: AUDIT COMMITTEES IN LOCAL AUTHORITIES AND POLICE 2022

1. INTRODUCTION

- 1.1 At its meeting on 25 April 2023, the Audit Committee considered the Chartered Institute of Public Finance & Accountancy (CIPFA) updated Position Statement: Audit Committees in Local Authorities and Police 2022, see appendix A for the statement.
- 1.2 The Committee were advised that the Guidance continued to include a strong focus on the factors that supported improvement in the working of audit committees. This included the knowledge and skills that Audit Committee members require and an emphasis on where the Audit Committee can add value. It also provided practical support in evaluating the existing Committee and planning any improvements identified.
- 1.3 A recommendation was made and approved in regard to the way in which Charnwood Borough Council's Audit Committee could work towards complying with the position statement. This included carrying out a knowledge and skills assessment and developing a training plan.

2. SELF-ASSESSMENT PROCESS

- 2.1 The knowledge and skills questionnaire was distributed to all Audit Committee members for completion, to identify gaps in knowledge and skills. 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.
- 2.2 A small working group was formed, consisting of three councillors, Cllr's Maynard, Cory-Lowsly and Infield, supported by the Chair of the Committee, the audit manager and the democratic services officer. The group reviewed the outcomes of the self-assessment, discussed the requirement for a second co-opted independent member and the requirement to meet the position statement to the best of the Committee's ability.

3. KEY FINDINGS AND OUTCOMES

- 3.1 Prior to the first meeting of the working group the knowledge and skills questionnaire was completed by four members of the Audit Committee. The level of responses received is considered representative of the views of the Committee as a whole.
- 3.2 A summary of responses received are attached at Appendix B.
- 3.3 The main areas identified for which training is required as part of the member induction process and on an ongoing basis are:
 - Organisational Knowledge

- Audit Committee Role and Functions
- Governance • Internal Audit
- Financial Management and Financial Reporting
- External Audit
- Risk Management
- Counter Fraud
- Treasury Management

3.4 It was agreed at the working group that further and ongoing training is required to support members with their responsibilities within the Audit Committee. Additionally, it was agreed to further consider the requirement to appoint a second co-opted independent member to assist with any knowledge and skills gaps by developing a relevant person specification/ job description.

3.5 A proposed action plan is detailed at Appendix C to meet the requirements of the Position Statement and ensure the effectiveness of the Committee.



CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives.

CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The 2022 edition of the position statement replaces the 2018 edition.

The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.

CIPFA's Position Statement 2022: Audit committees in local authorities and police

Purpose of the audit committee

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

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

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

Independent and effective model

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

The committee should:

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

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

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

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

Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

Maintenance of governance, risk and control arrangements

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

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - support effective arrangements for internal audit
 - promote the effective use of internal audit within the assurance framework.

- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Audit committee membership

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

Characteristics of audit committee membership:

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

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

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

Engagement and outputs

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

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

Impact

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

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

AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

APPENDIX B

Core Areas of Knowledge

Knowledge Area	Details of core knowledge required	How the audit committee member is able to apply the knowledge	Overall assessment of skills/knowledge (1-5, 1 being minimal and 5 being strong)				
			1	2	3	4	5
Organisational knowledge	<ul style="list-style-type: none"> An overview of the authority's governance structures and decision-making processes. Knowledge of the organisational objectives and major functions of the authority. 	<ul style="list-style-type: none"> This knowledge will be core to most of the audit committee's activities, including the Annual Governance Statement (AGS) review, internal and external audit reports, and risk registers. 	-	3	1	-	-
Audit committee role and functions	<ul style="list-style-type: none"> An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee. 	<ul style="list-style-type: none"> This knowledge will enable the audit committee to prioritise its work to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others. It will help the committee undertake a self-assessment and prepare its annual report. 	2	1	1	-	-
Governance	<ul style="list-style-type: none"> Knowledge of the seven principles as outlined in Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). The requirements of the AGS. How the principles of governance are implemented locally as set out in the local code of governance. 	<ul style="list-style-type: none"> The committee will review the local code of governance and consider how governance arrangements align to the principles in the Framework. The committee will plan the assurances it is to receive to adequately support the AGS. The committee will review the AGS and consider how the authority is meeting the principles of good governance. The committee will receive audit reports and information on risks relating to governance. 	3	-	-	1	-
Internal audit	<ul style="list-style-type: none"> An awareness of the key principles of the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN). Knowledge of the arrangements for delivery of the internal audit service in the authority and the charter. How the role of the head of internal audit is fulfilled. Details of the most recent external assessment and level of conformance with the standards. Internal audit's strategy, plan, and most recent annual opinion 	<ul style="list-style-type: none"> The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards. In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed. The audit committee chair is likely to be interviewed as part of the external quality assessment, and the committee will receive the outcome of the assessment and action plan. 	4	-	-	-	-

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Financial management and financial reporting	<ul style="list-style-type: none"> • Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. • An understanding of good financial management practice as set out in the CIPFA Financial Management Code (FM Code) and the level of compliance with it. • Knowledge of how the organisation meets the requirements of the role of the Chief Finance Officer (CFO) as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016). • An overview of the principal financial risks the authority faces. 	<ul style="list-style-type: none"> • Reviewing the financial statements prior to publication, asking questions. • Receiving the external audit report and opinion on the financial audit. • Reviewing both external and internal audit recommendations relating to financial management and controls. • The audit committee should consider compliance with the FM Code and the role of the CFO and how this is met when reviewing the AGS. 	3	1	-	-	-
External audit	<ul style="list-style-type: none"> • Knowledge of the role and functions of the external auditor and who currently undertakes this role. • Knowledge of the key reports and assurances that external audit will provide. • Familiarity with the auditor’s most recent plan and the opinion reports. • Knowledge about arrangements for the appointment of auditors and quality management undertaken. 	<ul style="list-style-type: none"> • The audit committee will meet with the external auditor regularly and receive their reports and opinions. • Monitoring external audit recommendations and maximising the benefit from the audit process. • The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service. 	3	1	-	-	-
Risk management	<ul style="list-style-type: none"> • Understanding of the principles of risk management, including how it supports good governance and decision making. • Knowledge of the risk management policy and strategy of the organisation. • Understanding of risk governance arrangements, including the role of members and of the audit committee. • Knowledge of the current risk maturity of the organisation and any key areas of improvement. 	<ul style="list-style-type: none"> • In reviewing the AGS, the committee will consider the robustness of the authority’s risk management arrangements. • Awareness of the major risks the authority faces is necessary to support the review of several audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee. The committee should also review reports and action plans to develop the application of risk management practice 	1	-	2	1	-
Counter fraud	<ul style="list-style-type: none"> • An understanding of the main areas of fraud and corruption risk that the organisation is exposed to. • Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). • Knowledge of the organisation’s arrangements for tackling fraud. 	<ul style="list-style-type: none"> • Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation’s fraud strategy and receives reports on the effectiveness of that strategy. • An assessment of arrangements should support the AGS, and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment. 	3	1	-	-	-
Values of good governance	<ul style="list-style-type: none"> • Knowledge of the Seven Principles of Public Life. • Knowledge of the authority’s key arrangements to uphold ethical standards for both members and staff (eg code of conduct). 	<ul style="list-style-type: none"> • The audit committee member will draw on this knowledge when reviewing governance issues and the AGS. 	1	1	1	1	-

APPENDIX 1

	<ul style="list-style-type: none"> • Knowledge of the whistleblowing arrangements in the authority. 	<ul style="list-style-type: none"> • Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported. 					
Treasury management	<ul style="list-style-type: none"> • Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation’s treasury management strategy – the organisation’s policies and procedures in relation to treasury management. 	<ul style="list-style-type: none"> • Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny. 	4	-	-	-	-

Core Skills

Skills	Key Elements	How the audit committee member is able to apply the skill	Overall assessment of skills/knowledge (1-5, 1 being minimal and 5 being strong)				
			1	2	3	4	5
Strategic thinking and understanding of materiality	Able to focus on material issues and the overall position rather than being side tracked by detail.	When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail.	-	1	1	1	1
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations, challenging performance and seeking explanations while avoiding hostility or grandstanding.	The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found.	-	1	1	1	1
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility.	The audit committee's outcome will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities. Where errors or control failures have occurred, the audit committee should seek assurances that appropriate action has been taken.	-	-	2	1	1
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice.	The audit committee should seek assurances that planned actions are practical and realistic.	-	-	2	1	1
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc	The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience.	-	-	-	3	1
Objectivity	Evaluate information based on evidence presented, avoiding bias or subjectivity.	The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses, and the committee member will need to weigh up differing views.	-	-	-	3	1
Meeting management skills	Chair the meetings effectively: summarise issues raised, ensure all participants can contribute, and focus on the outcome and actions from the meeting.	These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.	N/A as have an independent member as the chair.				

SUMMARY ACTION PLAN

Ref	Action	Assigned to	Timescale
1	Training plan to be developed to ensure all committee members have a reasonable level of knowledge in the relevant areas.	Working Group	September 2023
2	Review of the Self-Assessment of Good Practice to then consider areas of weakness and improvements required to meet the key principles as set out in the Position Statement.	Working Group	September 2023
3	Review of the annual work plan of the audit committee and align where necessary to the position statement.	Working Group	September 2023
3	Terms of Reference (TOR) of the Committee to be reviewed and updated in line with the CIPFA recommended TOR.	Working Group	September 2023
4	Constitution to be updated to reflect the good practice of having two independent members on audit committee.	Monitoring officer/ Deputy monitoring officer	January 2024
5	The Audit Committee should produce an annual report on how they complied with the position statement, discharged its responsibilities, and include an assessment of its performance.	Working Group with input from all committee members – ownership of the report to be confirmed.	To be completed for agreement by April 2024

Table 1

Potential Training Topics

- Reviewing and approving the Annual Statement of Accounts and Annual Governance Statement;
- Reviewing the findings of both Internal and External examinations and ensuring that appropriate action is taken to remedy weaknesses identified;
- Monitoring the effective development and operation of risk management;
- Reviewing and monitoring governance arrangements/ Good Governance Framework.

