

# Public Document Pack

Ask for Will Stevenson  
Email [william.stevenson@lichfielddc.gov.uk](mailto:william.stevenson@lichfielddc.gov.uk)



**District Council House, Frog Lane  
Lichfield, Staffordshire WS13 6YU**

Customer Services 01543 308000  
Direct Line 01543 308199

Wednesday, 15 March 2023

Dear Sir/Madam

## **AUDIT AND MEMBER STANDARDS COMMITTEE**

A meeting of the Audit and Member Standards Committee has been arranged to take place **THURSDAY, 23RD MARCH, 2023 at 6.00 PM IN THE COMMITTEE ROOM** District Council House, Lichfield to consider the following business.

Access to the Committee Room is via the Members' Entrance.

The meeting will be live streamed on the Council's [YouTube channel](#)

Yours faithfully

A handwritten signature in cursive script that reads 'Kerry Dove'.

Kerry Dove  
**Chief Operating Officer**

**To: Members of Audit and Member Standards Committee**

Councillors Spruce (Chair), Ho (Vice-Chair), Cross, Grange, Norman, Robertson, Silvester-Hall, White, M Wilcox



[www.lichfielddc.gov.uk](http://www.lichfielddc.gov.uk)



[/lichfielddc](https://www.facebook.com/lichfielddc)



[lichfield\\_dc](https://twitter.com/lichfield_dc)



[MyStaffs App](#)

## AGENDA

1. Apologies for Absence
2. Declarations of Interest
3. Minutes of the Previous Meeting 3 - 6
4. Public Sector Internal Audit Standards External Quality Assessment 7 - 52
5. Internal Audit Plan, Charter & Protocol 2023/24 53 - 92
6. Review of the Effectiveness of the Audit & Member Standards Committee 93 - 168
7. Work Programme 169 - 172



**AUDIT AND MEMBER STANDARDS COMMITTEE**

**2 FEBRUARY 2023**

**PRESENT:**

Councillors Spruce (Chair), Ho (Vice-Chair), Cross, Norman, Robertson, Silvester-Hall and M Wilcox

Officers in Attendance: Laura Brentnall, Christie Tims, Will Stevenson, Anthony Thomas, Andrew Wood

Also Present: Councillor Rob Strachan (Cabinet Member for Finance and Commissioning)

**32 APOLOGIES FOR ABSENCE**

Apologies were received from Councillor Grange and Councillor White.

**33 DECLARATIONS OF INTEREST**

There were no declarations of interest.

**34 MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 30 November 2022, previously circulated, were taken as read and approved as a correct record.

**35 TREASURY MANAGEMENT STATEMENT AND PRUDENTIAL INDICATORS**

Mr Anthony Thomas (Assistant Director Finance & Commissioning) presented the report to the committee. He confirmed that there were no significant changes of approach compared to the report approved for 2022/23. However, Mr Thomas highlighted that the report does not include the impact of upcoming Community Infrastructure Levy (CIL) allocations and work on the leisure centre. These impacts will be reviewed at an upcoming Overview & Scrutiny committee. The spending in question is recommended to be funded by reserves, Section 106 and windfall from the finance settlement. As a result, this does not increase the borrowing requirement set out. It was noted that the version of this report taken to council on February 28th will pick up any amendments that need to be made to prudential indicators and Treasury Management Statement. The committee were asked if they wished to raise anything in the report before it goes to Cabinet on February 14th.

Members enquired whether it would be worthwhile using existing investments to clear the projected external borrowing. Mr Thomas noted that in context to current interest rates, the rate on the loan is relatively low and more was earned on investment income than currently lost through debt interest.

Regarding the Municipal Bonds Agency, it was clarified that Arlingclose are currently not advising to use the agency in lieu of externally borrowing from other sources such as the Public Works Loans Board (PWLB).

Mr Thomas stated that external environment factors such as the war in Ukraine and current economic situation, all raised the level of risk. The strategy has been to try and increase the level of reserves in response to this. However, it was noted that the risk appetite in cabinet and among members appears to have increased - reflected by the approval to use earmarked

reserves for place shaping and the leisure centre for example. Mr Thomas confirmed the council is at the lower end of most of the CIPFA resilience index indicators, and these strong foundations mean the council can deal with slightly more risk in the circumstances.

Members were informed that the housing loans set out in appendix E of the report, were the remains from a partnership arrangement with Birmingham City Council that ended several years ago.

**RESOLVED:** Members considered the Treasury Management Strategy Statement and highlighted any changes or recommendations to Cabinet in relation to:

2.1 The Capital Strategy and Capital Programme, outlined in APPENDICES A & B.

2.2 The Minimum Revenue Provision Statement for 2023/24, at APPENDIX C, which set out the Council's policy of using the asset life method for making prudent provision for debt redemption.

2.3 Treasury Management Strategy Statement for 2023/24 APPENDIX D.

2.4 The Investment Strategy Report (APPENDIX E) where no changes were recommended for 2023/24.

2.5 The Capital and Treasury Prudential Indicators for 2022-27 in the financial implications section.

2.6 The Authorised Limit Prudential Indicator shown within the financial implications section.

## **36 INTERNAL AUDIT PROGRESS REPORT**

The report was presented to the committee by Andrew Wood (Audit Manager) who confirmed that 45% of the audit plan had been completed against a profile completion of 85%. Mr Wood confirmed these details have been shared with leadership team. The arrangements with BDO and E-Tec services have been reviewed and the contract with E-Tec extended. The NHS framework agreement with BDO into 2023/2024 is currently being reviewed. Mr Wood outlined the outstanding high priority recommendations, noting that out of 8 outstanding recommendations, 2 relating to IT system security are not overdue. He confirmed significant progress has been made on GDPR recommendations.

Mr Wood stated he was confident completion of the plan would be achieved, confirming BDO will put significant resources in to complete their planned audits. He also reassured members that audit priority profiles were kept in regular review and was happy to include extra details regarding customer satisfaction ratings.

In response to questions on GDPR, Mr Wood confirmed that GDPR compliance was previously part of an outsourced arrangement, whereas the council now has an internal GDPR officer to assist with questions and queries.

**RESOLVED:** Members noted Internal Audit's Quarterly Progress Report, including results for the quarter to 31 December 2022.

## **37 RISK MANAGEMENT UPDATE**

Andrew Wood presented the Risk Management Update to the committee. It was confirmed that the Strategic Risk (SR) Register was last reviewed on January 18th by Leadership Team. All changes since the November 2022 Audit & Member Standards Committee are highlighted within the report. SR 1, relating to pressures on finance has been reduced from 9 to 3

following confirmation of the financial settlement 2023/24 and principles being set for 2024/25. SR 2, relating to resilience of teams, has been lowered from 6 to 3 due to the ongoing resilience framework and business continuity arrangements. SR 7, relating to the threat to IT systems, remains a high priority SR for the committee. Horizon scanning additions include pEPR implications around systems for recycling packaging and compensatory affects; the implications of an increase in fuel duties from 1 April 2023; planning application fees; LATCO review of governance arrangements and structures; arrangements for legislative changes following Brexit and blanket withdrawal in December 2023.

Members commended the work undertaken to ensure there were no strategic risks in the red zone and praised officers on this. Members were assured that SR 1 relates mainly to external environment factors and has previously been heightened by 1-year financial settlements, the Covid-19 pandemic and ongoing economic situation.

Members asked if the impact of rising interest rates and the potential effect that may have on levels of homelessness has been considered. Mr Thomas confirmed that a cost of living allowance has been built into the budget in order to potentially mitigate the impact of this over the next 2 years. In addition, he noted the council tax support fund announced by central government alongside local council tax support schemes.

Mr Wood confirmed that he has the full support of the Chief Executive and Leadership Team, including regular full and frank conversations concerning the strategic risks.

**RESOLVED:** Members noted the risk management update and received assurance on actions taking place to manage the Council's most significant risks.

### **38 GDPR/DATA PROTECTION POLICY UPDATE**

Laura Brentnall (Compliance and Data Protection Officer) presented the GDPR/Data Protection Update to the committee. She confirmed that this would create a strong foundation on which the council will build a system of best practice. The impact of the Local Elections 2023 on officer resources between February and June was highlighted to members. It was confirmed the project plan would start by examining HR and work outwards from that point, before finally coming to committee for review. She assured members that there is a fundamental shift in dynamic within the council about how to perceive GDPR and data protection. Anyone who has not completed GDPR and cyber security training by April 1st, 2023 will be frozen out of system until they undertake training on site. Those on maternity or long-term sick will be subject to extenuating circumstances. GDPR training will form part of the induction process for new starters, with an escalation if they have not completed the training after 2 weeks.

Members praised Laura Brentnall for the work undertaken on this and reiterated their appreciation of quarterly reports on the matter until the action plan is completed.

**RESOLVED:** The committee note the updates to the action plan.

### **39 TAXI LICENSING UPDATE**

Christie Tims (Assistant Director of Operations, Regulation and Enforcement) presented the Taxi Licensing Update to the committee. The update was brought forward following concerns raised by members at the November 2022 meeting regarding the presence of non-LDC registered taxis operating in the district. Ms Tims confirmed this as legal and normal practice, on the condition that the vehicles concerned are booked from their licenced operating areas. Only hackney carriages licenced by LDC can stand on the city taxi ranks. It was noted that all drivers go through roughly the same licensing process, with the main difference being that other authorities allow the use of older vehicles, up to 11 and a half years. More than 90% of

drivers operating in the district are not Lichfield or Burntwood residents, instead travelling into the district to carry out their work.

Members were informed that awareness and poster campaigns are being planned this year, informing the public to use the appropriate liveried taxis; book through a reputable private hire company; check the price to be charged, and other such information. Ms Tims also highlighted the Safer Streets Campaign to be discussed at the Community Safety Partnership the following week. A policy consultation being put to the Regulatory & Licensing committee will be developed into a robust policy, designed to encourage sustainable taxi operations in the current environment.

Members queried if electric vehicles could be encouraged through the policy.

Ms Tims confirmed the recruitment of a new Regulation & Enforcement Manager from March 1st who would be tasked with forming partnerships and engaging with operators to create a sustainable business model.

Members were informed that residents are encouraged to report unlicensed taxis at taxi ranks to Lichfield.gov.uk and was happy to discuss further marshalling work that could be undertaken by community groups. Members commended the work of the Late Night Listeners who operate near the city centre taxi rank and suggested engagement with them and potentially the RMT.

**RESOLVED:** Members noted the taxi licensing update.

#### **40 WORK PROGRAMME**

The Committee were informed of the intention to bring the following two items forward from the April 19th meeting to the March 23<sup>rd</sup> meeting:

- Internal Audit Plan, Charter & Protocol 2023/24
- Review of the Effectiveness of the Audit & Member Standards Committee

In addition, an Internal Audit Item on 'Public Sector Internal Audit Standards and External Quality Assessment' would also be brought to the March meeting.

(The Meeting closed at 7.25 pm)

CHAIR

# PUBLIC SECTOR INTERNAL AUDIT STANDARDS & EXTERNAL QUALITY ASSESSMENT REPORT



**Cabinet Member for Finance & Commissioning**

Date: 23 March 2023  
 Agenda Item: .....  
 Contact Officer: Andrew Wood  
 Tel Number: 01543 308030  
 Email: andrew.wood@lichfielddc.gov.uk  
 Key Decision? NO  
 Local Ward Members Full Council

**AUDIT & MEMBER STANDARDS COMMITTEE**

## 1. Executive Summary

- 1.1 This report comprises details on the External Quality Assessment (EQA) completed to ensure compliance with the Public Sector Internal Audit Standards and outline to committee the agreed Action Plan for improvements (Appendix 3).

## 2. Recommendations

- 2.1 To note the report, presentation and endorse the Action Plan in respect of the External Quality Assessment.

## 3. Background

- The Public Sector Internal Audit Standards (PSIAS) came into force on the 1<sup>st</sup> April 2013. The Standards require that Internal Audit comply with the professional best practice and that the External Quality Assessment (EQA) should be completed at least every five years. The last EQA was completed in 2017/2018 and to conform to the standards, a further EQA was completed in December 2022/January 2023. The EQA has recently been completed and the report is attached at **Appendix 1**. The report identifies areas of good practice as well as identifying some issues and recommendations to enhance the service.
- The External Quality Assessor will provide an overall assessment of the service and the presentation is attached at **Appendix 2**.
- The overall assessment is that the service ‘generally conforms’ to the Standards which is the highest assessment level. The constituent elements of the assessment and their assessed level are explained below:

**Resources**                      **Excelling** – Processes in this area are embedded within every day practices and mostly reflect best practice that is consistent with PSIAS expectations.

**Competency**                    **Established** – Processes in this area are generally compliant with the PSIAS and embedded within every day practices; the EQA has identified a number of areas where further development would be beneficial.

**Delivery**                        **Established** – Processes in this area are generally compliant with the PSIAS and embedded within every day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

- The report also benchmarks the Internal Audit Service against fellow peers and this is detailed in the table below:

	% - percentage compliance
Lichfield/Tamworth	81%
Local Government Average	82%
Local Government Range	73% - 90%

In comparison with other local government Internal Audit providers the Shared Service between Lichfield and Tamworth compares well considering the size of the service and the requirement to procure services to cover vacancies from external contractors. It is also noted that the service also sits well within the current range of compliance across the local government. The report details the benchmarking undertaken and further comparisons across the private sector. Further analysis is shown within Part 3 of **Appendix 1**.

- The report details a number of recommended actions for improvements to the Internal Audit Service which have been considered and the appropriate responses are detailed in **Appendix 3**. The actions outlined within the Action Plan are graded as follows;

Recommendation grading	Explanation
<b>Enhance</b>	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
<b>Review</b>	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
<b>Consider</b>	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

The number of recommendations in each area are outlined below:

Recommendation Grading	Number of Recommendations	Number agreed
Enhance	NIL	NIL
Review	7	7
Consider	5	5
	<b>12</b>	<b>12</b>
<b>Suggested Enhancement</b>	<b>6</b>	<b>6</b>

As outlined in the table above and supported by the attached Action Plan **Appendix 3** the suggested recommendations are focussed in the 'Review' and 'Consider' category and no recommendations fall under the 'Enhance' rating. In addition 6 suggested enhancements were made at the conclusion of the review and these have been incorporated into the Action Plan.

- The actions incorporated in the planned improvements will lead to specifically;
  - Enhancing the Internal Audit Charter and Protocols;
  - Improve the audit planning model and allow for the strategic and operational risks identified through the council's risk management framework and provide assurance of the mitigating controls in place; and
  - Supplement the audit approach to provide an assessment and assurance that the objectives of the Council are being met.
- The Action Plan will be regularly reviewed by the Audit Manager and reported to senior management. Additionally the Action Plan will be reported as part of the Quality Improvement Assurance Policy and through the quarterly progress reports submitted to this committee.



Alternative Options	N/A
Consultation	N/A
Financial Implications	The audit service has been delivered within budget during the year.
Approved by Section 151 Officer	Yes
Legal Implications	There is a risk that non-compliance with the PSIAS will mean that an effective system of internal control is not in place and therefore we are not complying with the Accounts and Audit (England) regulations 2015.
Approved by Monitoring Officer	Approved.
Contribution to the Delivery of the Strategic Plan	Delivery of the audit plan contributes to all aspects of the District Council's Strategic Plan.
Equality, Diversity and Human Rights Implications	No equality, diversity or human rights implications arising from this report.
Crime & Safety Issues	None arising.
Environmental Impact	None arising.
GDPR/Privacy Impact Assessment	None required.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	Significant / high risk systems of internal control fail and go unaddressed.  Audit Manager	Likelihood: Yellow Impact: Red Severity: Red	The audit planning process ensures that audit resources are directed to areas of most significant /highest risk.	Likelihood: Green Impact: Yellow Severity: Yellow
B	Failure to comply with the Standards means non compliance with the Accounts and Audit Regulations.  Audit Manager	Likelihood: Yellow Impact: Red Severity: Red	Compliance with the standards assessed externally through the EQA every five years.  Annual reporting via the Quality Improvement Assurance Policy.  Reporting on Action Plan to Leadership Team and Audit & Member Standards Committee.	Likelihood: Green Impact: Yellow Severity: Yellow
C	The External Quality Assurance recommendations are not implemented or are categorised as a low priority	Likelihood: Yellow Impact: Red Severity: Red	Reporting on Action Plan to Leadership Team and Audit & Member Standards Committee.	Likelihood: Green Impact: Yellow Severity: Yellow

---

Background documents	Audit Plan and Charter approved by Audit & Member Standards Committee 20 April 2022.
Relevant web links	

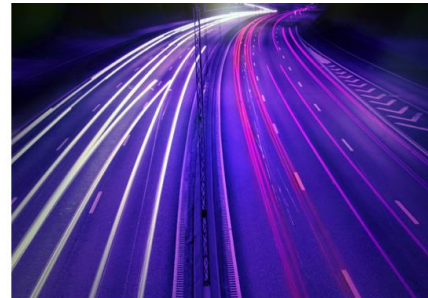
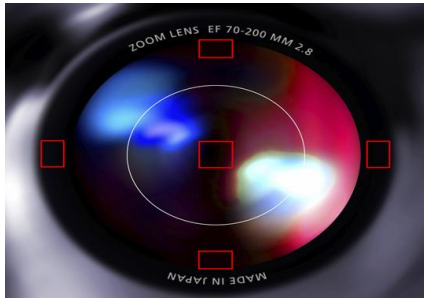




# External Quality Assessment

Internal Audit Shared Services

Executive report – January 2023



# Contents

---

Opinion	3
Executive summary	4
Summary of good practice	6
Part one	
• Compliance with the Public Sector Internal Audit Standards - Findings and recommendations	7
Part two	
• Suggestions for enhancement of internal audit services	13
Part three	
• Benchmarking	17
Appendices	22

# External Quality Assessment

Tamworth BC and Lichfield DC Shared Internal Audit Service

**Opinion: The Internal Audit Shared Service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standards.**

## Key matters arising from the review:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of each Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Ensuring clear logic regarding the use of inherent and residual risk assessments in the form of 'Control Risk' through working papers for each assignment in order to focus on agreed management objectives, significant risks and relevant key controls would better support the content of the assurance provided.
- Consideration should be given to expressing internal audit recommendations and opinions in line with the risk appetite of each Council as stated within the Risk Management Policy as this would enhance transparency and communication with clients.
- Where high risk recommendations are identified ensure these support a negative audit opinion which is appropriately reflected in strategic and operational risk registers,,
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect the strategic planning process and therefore the cumulative knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.

## Good Practice identified during the review

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit within the Councils guides delivery and establishes the basis for delivery of Internal Audit.
- Shortfalls in resources are supplemented with external support,
- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent risk-based service.
- Self-assessment and the Quality Assurance Improvement Programme identifies areas in which future development will be beneficial,
- Routine reporting informs clients and the Audit Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations, and
- Appropriate statements regarding confidentiality and limitation of liability are included in internal audit reporting.

# Executive summary

Internal Audit Services are delivered by a shared service in-house team and supported by externally contracted support services for both IT (ETEC) and general audit work (BDO). Services are managed by Andrew Wood as Audit Manager, who assumes the role of Chief Audit Executive (CAE) for the purposes of this review. Andrew is supported by Alison Swift as Principal Auditor. The service has been carrying two vacant positions since May 2021 which has been covered through use of the external support under contract.

The service has responded to the changes of focus in professional standards by developing a risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has been updated in 2022 to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS) although this might now be better revised to recognise current internal practice as this would aid training as the vacant posts are recruited to.

From an internal audit perspective, considerable advantage is to be gained from increasing development and recognition of each client's Risk Management processes, which reflect a 'Three lines of Defence approach' and therefore provide a basis for risk-based internal audit as required by the standards. The approach can be used to reformat the Audit Universe of potential audits and therefore fully reflect the risk appetite of each Council. If fully embedded within audit engagement planning as recognition of Management's Objectives, this will align with current practice to identify significant risks and provide a basis for an assurance opinion in relation to risk management, governance and control. Clear alignment will enable internal audit plans and assignments to focus on the value of 'Control Risk' and thereby increasingly focus its attention on recognised key controls and the assurances available to mitigate risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to each Council.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of the Councils, there is a need and opportunity for the internal audit service to continue to enhance delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the Council's stated objectives, through the provision of independent assurance.

Current services are assessed to '**generally conform**' with the PSIAS standards with the service demonstrating a high standard of delivery which is well regarded by stakeholders. A series of specific recommendations are made in the report that follows which reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services and as a result enhance the benefit of the service to clients.

# Overall assessment

1	<b>RESOURCES</b>		<b>Excelling</b> – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
2	<b>COMPETENCY</b>		<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
3	<b>DELIVERY</b>		<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.



# Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit and Governance (TBC) and Audit and Member Standards (LDC) Committees (AC).	The combination of the Charter, supported by the Internal Audit Protocol and Manual is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest, although further clarity regarding the IA role regarding risk management would be beneficial.
1311	The service has conducted internal assessment exercises regarding its performance in accordance with a Quality Assurance Improvement Programme.	Performance review is embedded within quality control procedures and identifies and supports performance development needs.
2020	Active engagement at Member and management levels.	Represents the establishment of a good understanding of key issues through routine interaction with Officers and Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other external sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A recognised process for delivery of internal audit services has been established.	Provides for a consistent methodology, within which the service is delivered through a series of templates.
2060	Reports are produced using a standard template which is consistently applied.	Demonstration of a consistent approach to communication which is well received by management and the AC's – effective follow-up ensures that issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.

# Part one

---



## Compliance with the Public Sector Internal Audit Standards

Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
1.	<p><b>Internal Audit Charter (IAC)</b> The IAC is comprehensive regarding engagement reports however does not contain details of the requirement for the CAE to deliver an Annual Report including an opinion in relation to risk management, governance and control.</p>	<p>Include an appropriate statement in the Internal Charter with regard to the provision of an Annual Report and align this with regard to the benefit of aligning the internal audit planning process with a continuous assessment of the risk environment faced by each client, in order to support the provision of the annual opinion regarding risk management, governance and control.</p> <p style="text-align: right;"><b>PSIAS 1000</b></p>	
2.	<p><b>Performance appraisal</b> The self-assessment identified that the CAE's appraisal which is undertaken by the Chief Executive at TBC has not taken place.</p> <p>A new OKR process is to be introduced at LDC.</p>	<p>Ensure that a robust performance appraisal process is in place within the Internal Audit Team</p> <p>With regard to the Audit Manager consider Inviting observations from both Chairs of AC in advance of the performance appraisal, as this would provide valuable client feedback and reflect best practice.</p> <p style="text-align: right;"><b>PSIAS 1110</b></p>	
3.	<p><b>Declarations of interest</b> Each Council has adopted different practices regarding the protocol for declarations or conflicts of interest.</p> <p>Due to the independent nature of internal audit work it would be beneficial for internal audit staff and any contractors to confirm the position on an annual basis.</p>	<p>The CAE should obtain confirmation regarding potential conflicts of interest on 1 April each year and on appointment of any further staff or contractors undertaking internal audit engagements at the Councils.</p> <p style="text-align: right;"><b>PSIAS 1100</b></p>	

	Issue identified	Recommended action
1.	<p><b>Audit Universe</b></p> <p>The current internal audit planning model reflects use of a “standard audit universe’ to which a cyclical approach to reviewing areas of activity is applied in consultation with management. This is provided for in circumstances where the client risk management system cannot be relied upon.</p> <p>Internal Audits of risk management have provided positive opinions in relation to their application and as a result it would be beneficia therefore to increasing align the focus of strategic and engagement planning with each clients risk environment as this would enhance internal audits’ ability to demonstrate a commitment to helping each Council achieve its objectives.</p> <p>It may be beneficial to consider the content of each clients risk management process as the Audit Universe in future.</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded within each Councils risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.</p> <p>Internal Audit works with each client manager at the time of an engagement to identify significant risks; it would be opportune to increasingly recognise and promote the value of ‘Control Risk’ at an operational level and transparently integrate this within the planning process, identifying sources of assurance as a matter of routine.</p> <p>It would be beneficial therefore to increasingly align development of the internal audit planning system with each Councils risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level.</p> <p>It may be that such an approach would also help embed effective risk management within each clients governance processes.</p> <p style="text-align: right;"><b>PSIAS 2000/2010</b></p>

# Competency continued

	Issue identified	Recommended action
Page 21	<p><b>2. Purpose of the system subject to review</b>            Audit Planning Memorandum currently contains a statement which reflects the 'Management Objective' of the area subject to review. Whilst the terminology is correct statements tend to focus on a generic statement regarding the internal control environment rather than focusing on what management are aiming to achieve, in accordance with PSIAS requirements, which recognise the value of focusing on operational management objectives.</p>	<p>The inclusion of a Management Objective is regarded as good practice however it may be beneficial to increasingly capture the specific aims of management in each review to which can be aligned the significant risks being faced within the area under review .</p> <p>This will assist with the discussions with client managers and specifically the identification of the significant risks which may impact upon achievement of the established objectives and upon which the assurance opinion should be based.</p> <p>The significant risks may be all or some of those identified with the risk management process as well as others recognised at the time of audit.</p> <p style="text-align: right;"><b>PSIAS 2201</b></p>
	<p><b>3. Recognition of identified key controls</b>            The current risk management methodologies require identification of the primary controls which exist as well as the further mitigating controls which are to be developed.</p> <p>These are likely to represent the key controls upon which the audit should be based, as they represent 'Control Risk' and the implications should a failure of controls occur.</p>	<p>It would be beneficial to increasingly focus on what is regarded as a 'significant risk' within each Councils risk management processes and the associated primary controls as this would increase efficiency through allocating appropriate resources to those areas of most concern..</p> <p>There is limited feedback from the client survey which indicates that the Shared Service might provide increased focus on significant risk and introducing advice best practice within the audit approach and these may be areas where increased understanding of risk throughout the process may produce results which are regarded as adding value by clients.</p> <p style="text-align: right;"><b>PSIAS 2010</b></p>

# Competency continued

	Issue identified	Recommended action
5.	<p><b>Consideration of Fraud</b> The Team maintain a Fraud Risk Register demonstrating compliance with the standards regarding the recognition of potential fraud, however this is not directly considered when scoping engagements.</p>	<p>Ensure that the areas reviewed within an engagement include those where potentially significant fraud risks exist.</p> <p style="text-align: right;"><b>PSIAS 2030</b></p>
Page 22	<p><b>QAIP policy</b> The service has introduced a Quality Improvement Assurance Policy in accordance with the requirements of the standards.</p> <p>The policy focuses on consistent internal review of engagements, an annual assessment against the standards and the EQA review on a five year cycle.</p> <p>The Head of Internal Audit's Annual report confirms that aspects of the policy have been completed in a diagrammatic presentation.</p> <p>Industry best practice now reflects an extension of the quality review process to include consideration of wider performance in the form of KPI's, resources, skills and training requirements.</p>	<p>It would be beneficial to update the policy in line with best practice and as required confirm annually that all measures have operated during the year as well as summarise any outcomes influencing future development of the service within the Head of Internal audit's Annual Report.</p> <p style="text-align: right;"><b>PSIAS 1300</b></p>

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

	Issue identified	Recommended action	
1.	<p><b>Governance</b> The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements.</p> <p>Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expenses.</p>	<p>In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report.</p> <p style="text-align: right;"><b>PSIAS 2110</b></p>	
2.	<p><b>Risk Management</b> Internal Audit last reviewed risk management as an assignment in TBC (March 2021) and LDC (March 2022) providing a ‘Reasonable’ assurance opinion.</p>	<p>The standards require an annual opinion to be made in the Head of Internal Audit’s Annual Report regarding the adequacy and effectiveness of each Councils risk management processes. It would therefore be beneficial to support the opinion with evidence of how this has been reached through a combination of the assurances gained at both a strategic level and at an operational level within engagements.</p> <p>It would be beneficial to document in this approach how any potential conflict of interest with regard to the Audit Manager and Principal Auditor’s roles relating to risk management is managed.</p> <p style="text-align: right;"><b>PSIAS 2120</b></p>	

	Issue identified	Recommended action
3.	<p><b>Head of Internal Audit Annual Opinion</b> The current statement is largely based upon the work completed in the current financial year.</p> <p>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks which each client is facing and information from other assurance sources.</p>	<p>In practice, the opinion is actually based upon the continuous thread or trend of assurance work completed in recent years as a result of the focus of internal audit plans, the wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes.</p> <p>Future opinions should state the full basis upon which the opinion has been reached.</p> <p style="text-align: right;"><b>PSIAS 2450</b></p>
4.	<p><b>Internal Audit Risk Based Strategy</b> The teams approach to assessment of the perceived risk at inherent and residual levels within an engagement is reflected in the grading of recommendations and opinions which are then used in reporting.</p> <p>Audit Engagement Plans and Reports contain an explanation of how the Internal Audit Team relate the level of risk evaluation to the conduct of the audit.</p> <p>It would be beneficial to ensure that the wording used is consistent with risk management terminology used by each client.</p> <p>PSIAS guidance emphasises that the focus of internal audit should be on 'significant' risk.</p>	<p>Consider reviewing the wording of definitions that support the grading of recommendations and opinions to better reflect risk appetite of each client. Particular attention should be given to the use of wording such as Fundamental and Significant.</p> <p>Within engagement reports this would then link to alignment of assurance opinions where fundamental or a series of significant recommendations automatically generated a 'Limited Assurance' opinion.</p> <p>Consider whether maintained a fourth level of assurance (being no assurance) is necessary.</p> <p style="text-align: right;"><b>PSIAS 2420</b></p>



# Part two

---



## Suggested enhancements for consideration

# Suggested Enhancements for consideration

	Issue identified	Recommended action
1.	<p><b>Job descriptions</b> Current job descriptions are in a consistent form abut are not routinely reviewed as part of the PDR process..</p>	<p>Best practice reflects regular update of job descriptions, it may be beneficial to review all job descriptions at the same time to ensure that any inter-dependencies are fully reflected, particularly as the two currently vacant posts are advertised</p> <p style="text-align: right;"><b>PSIAS 1210</b></p>
2.	<p><b>Client surveys</b> Progress has been made in obtaining feedback from auditees following each audit through discussions with client managers and within the annual planning process.</p> <p>Current completion reflects 66% TBC and 82% LDC.</p> <p>This provides informal confirmation from clients regarding the Teams ability to deliver upon its responsibilities and particularly add value.</p>	<p>Internal Audit may find it useful to utilise Survey Monkey or similar technology for collecting feedback, and capture similar feedback in relation to each contractors performance, as this can prove to be an efficient means of gathering an early response.</p> <p>Feedback should be included as part of the QAIP process.</p> <p style="text-align: right;"><b>PSIAS 2000</b></p>
3.	<p><b>Contract support</b> A contract is in place with each contractor which states that delivery of services should comply with the PSIAS.</p>	<p>In order to evidence that the Shared Service is compliant in overall terms it would be helpful if each contractor were requested to provide evidence that their work had been independently assessed in accordance with the PSIAS.</p> <p style="text-align: right;"><b>PSIAS 1312</b></p>

# Suggested Enhancements for consideration

	Issue identified	Recommended action
3.	<p><b>Key Performance Indicators</b> Completion of the Internal Audit Plan is regarded as the current focus of performance monitoring, although other indicators based on recommendations and opinions made in the year are recorded in the Head of Internal Audit's Annual Report.</p> <p>Good practice elsewhere utilises a range of quantitative and qualitative measures to demonstrate performance against the Internal Audit Charter.</p>	<p>Consideration could be given to devising a more comprehensive list of indicators and a summary of client feedback received. This may include:</p> <ul style="list-style-type: none"> <li>• Reports issued to agreed timescales</li> <li>• Recommendations accepted/not accepted by risk rating</li> <li>• Recommendations acted upon in a timely manner</li> <li>• Client satisfaction</li> <li>• Staffing levels and qualifications</li> <li>• Planned training completed</li> </ul> <p style="text-align: right;"><b>PSIAS 1310</b></p>
4.	<p><b>Training</b> The Internal Audit Team has developed a comprehensive training and skills matrix which includes reference to mandatory requirements although this has not been maintained.</p> <p>As the internal audit planning process devises a forward looking three year plan it would be beneficial to consider the future training needs of internal audit staff and include these in future resource planning.</p>	<p>Consider the benefits of using the priorities included in internal audit plans to identify potential courses or seminars which may provide increased understanding of the risk environment that will be reviewed.</p> <p>Ensure that training records are maintained and used to inform the QAIP.</p> <p style="text-align: right;"><b>PSIAS 1210</b></p>

# Suggested Enhancements for consideration

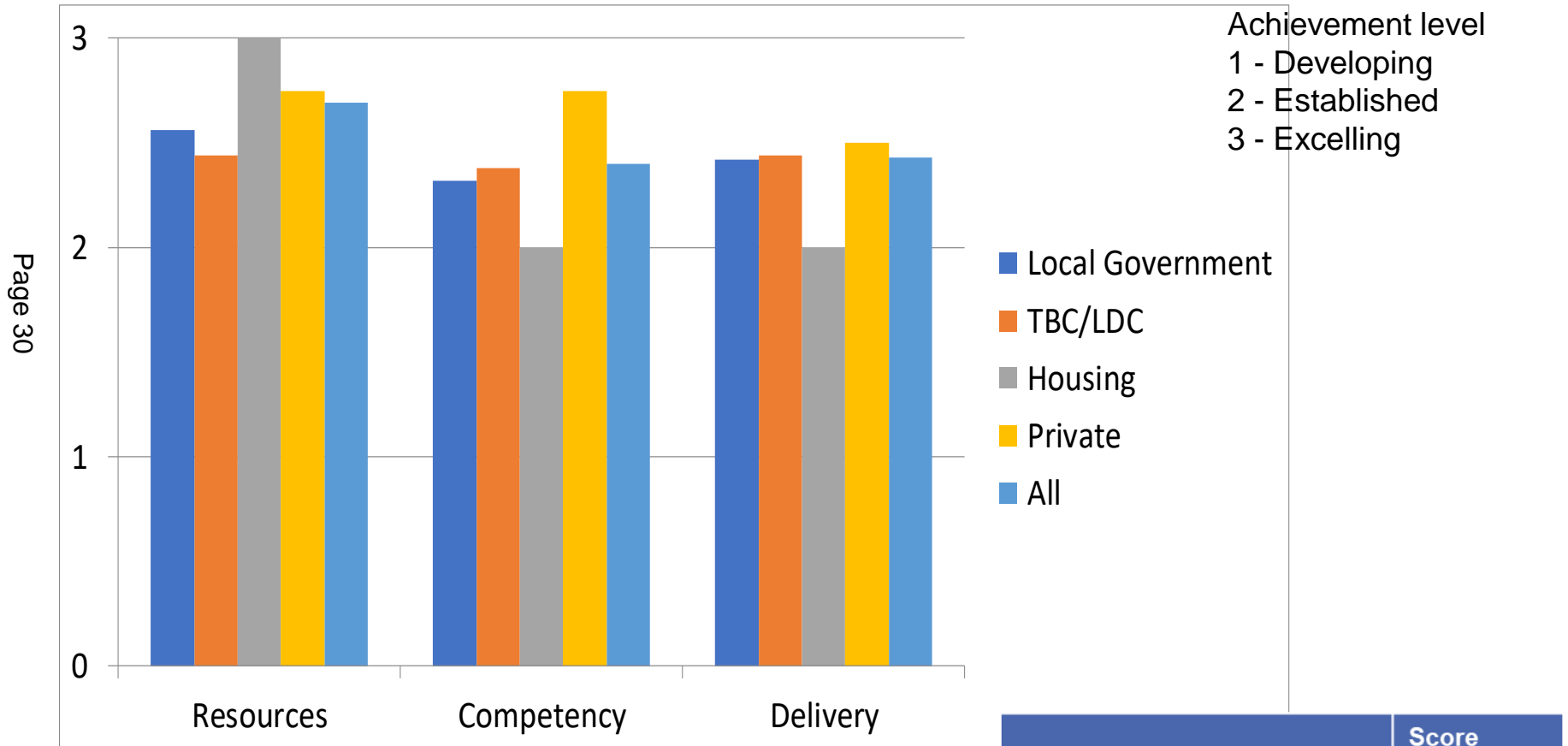
	Issue identified	Recommended action
6.	<b>Internal Audit Manual</b> The Team has compiled an Internal Audit Manual which was last reviewed in December 2022.	<p>Following completion of the EQA, consider revising the Manual to fully reflect current practice rather than generic example as this will assist when training new staff.</p> <p>It may be useful to include the Internal Audit Protocol document within the Manual as this represents an excellent way of explaining the internal audit process to all stakeholders.</p> <p style="text-align: right;"><b>PSIAS 2030</b></p>

# Part three

---

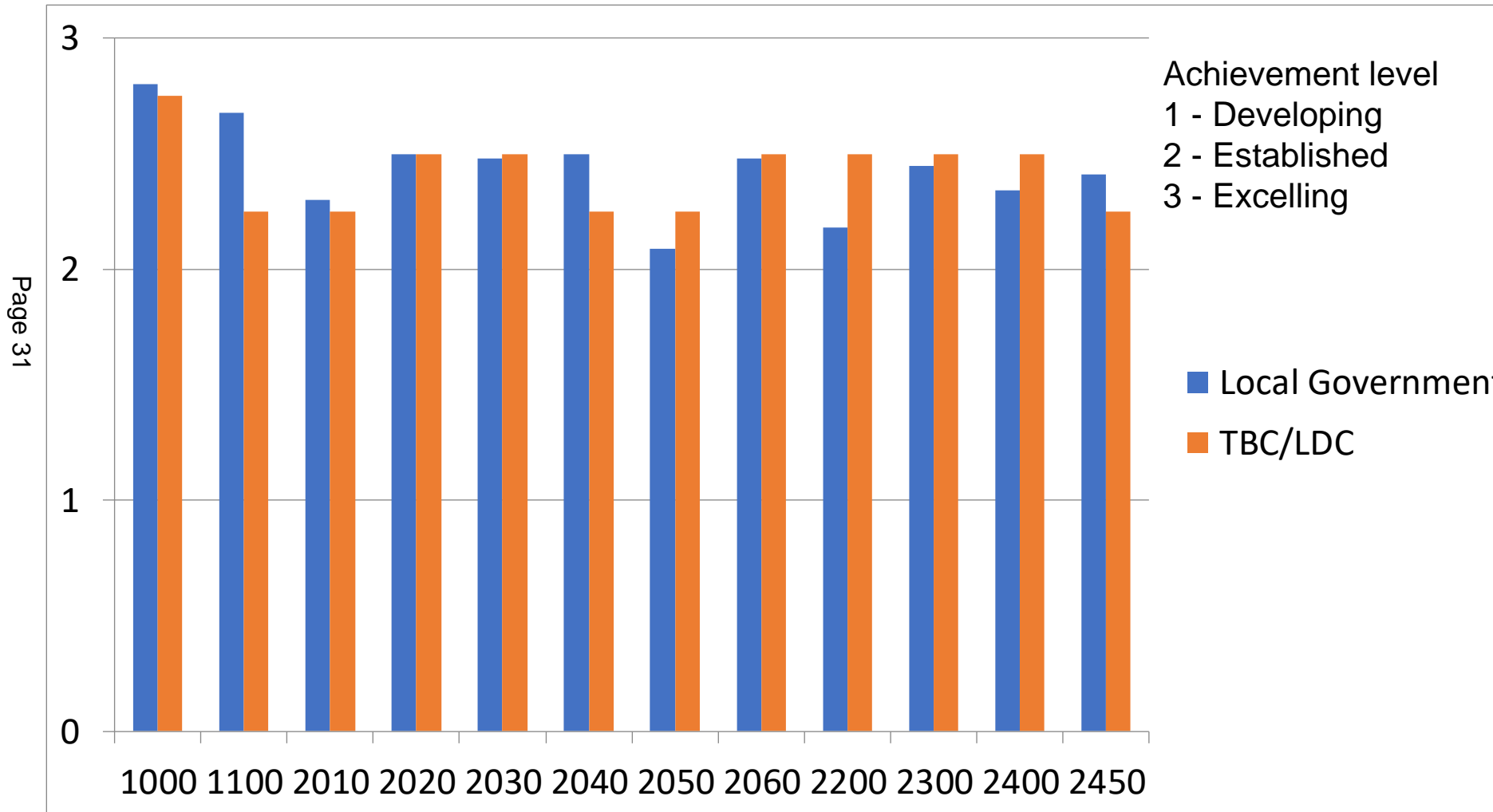
## Benchmarking

# Benchmarking - Sector analysis



	Score
Tamworth /Lichfield	81%
LG Average	82%
LG range	73 -90%

# Benchmarking - Industry analysis



# Appendix

---

1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations



# Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	75	25
<b>Average</b>	<b>97</b>	<b>3</b>

**Conclusion:**

Feedback from stakeholders confirms that the Internal Audit Shared Service is considered to provide a good quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded. A small number of respondents were less positive regarding the emphasis placed on significant risk and the increasing need to add value through provision of advice regarding new ideas and best practice elsewhere.

# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

# Basis for EQA

---

## Compliance with IPPF/PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

# Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
<b>Enhance</b>	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
<b>Review</b>	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
<b>Consider</b>	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.



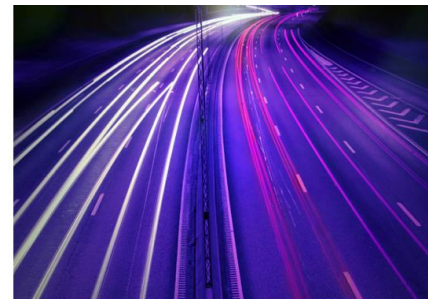
Page 37

# Lichfield District Council

## External Quality Assessment

Internal Audit Services

Executive Summary for Audit Committee – 23 March 2023



# Basis for overall opinion

**Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

**Partially Conforms** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

**Does Not Conform** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

Source: Institute of Internal Auditors (2016)

	Score
Tamworth /Lichfield	81%
LG Average	82%
LG range	73 -90%

# External Quality Assessment

Lichfield District Council

Overall Opinion – **GENERALLY CONFORMS**

The logo consists of a blue rectangular box with a thin yellow border on the left and right sides. Inside the box, the words "BUSINESS", "RISK", and "SOLUTIONS" are stacked vertically in white, bold, sans-serif capital letters. "RISK" is highlighted in yellow.

## **Good Practice identified during the review**

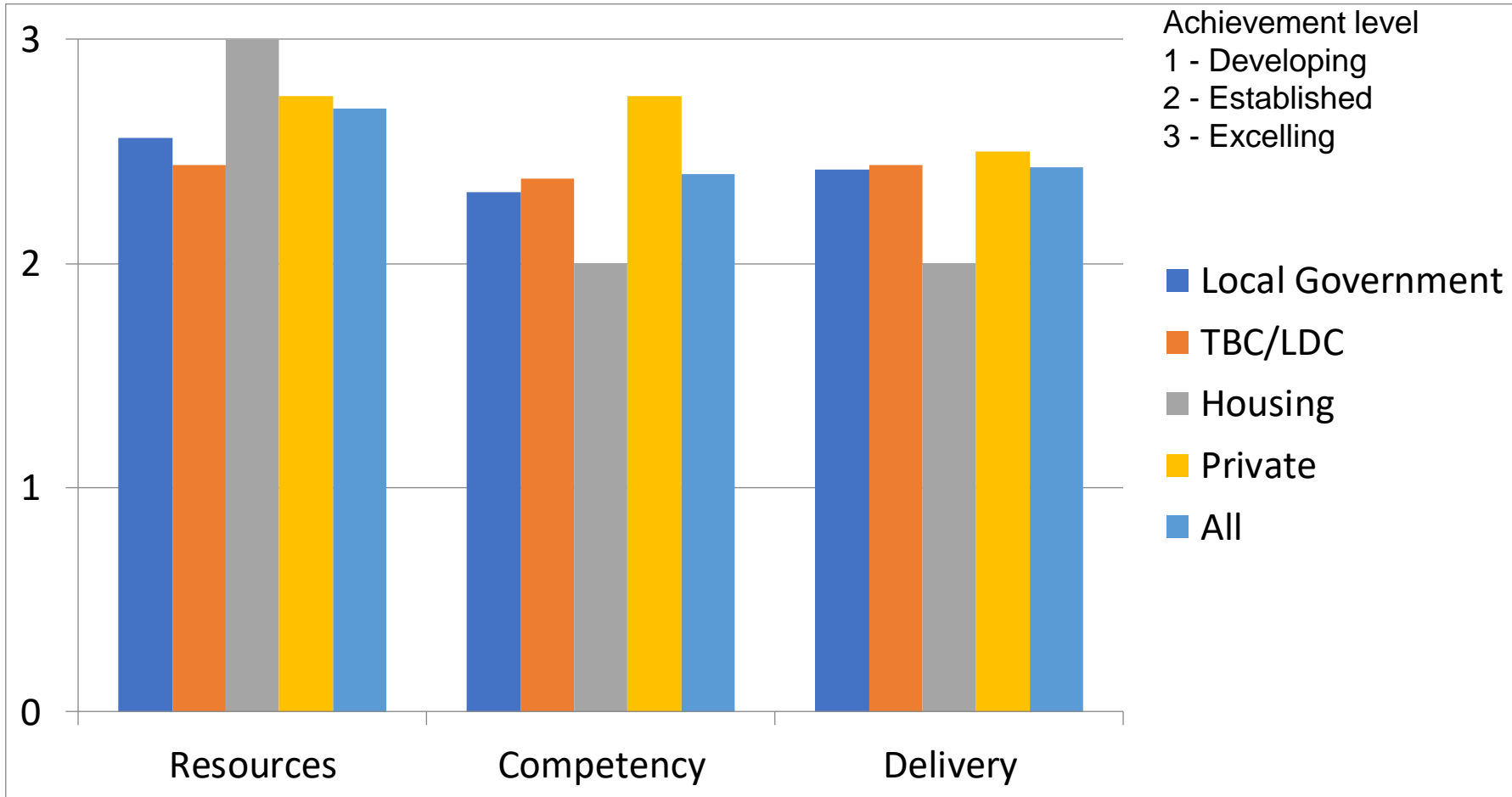
- An Internal Audit Charter setting out the role and responsibilities of Internal Audit within the Councils guides delivery and establishes the basis for delivery of Internal Audit.
- Shortfalls in resources are supplemented with external support,
- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent risk-based service.
- Self-assessment and the Quality Assurance Improvement Programme identifies areas in which future development will be beneficial,
- Routine reporting informs clients and the Audit and Members Standards Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations, and
- Appropriate statements regarding confidentiality and limitation of liability are included in internal audit reporting.

# Areas where further attention should be beneficial to the team and its clients

## Key matters arising from the review:

- Increasing integration by internal audit of risk-based techniques with the risk appetite of LDC particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Ensuring clear logic regarding the use of inherent and residual risk in the form of 'Control Risk' through working papers for each assignment in order to focus on agreed management objectives, significant risks and relevant key controls would better support the content of the assurance provided.
- Consideration should be given to expressing internal audit recommendations and opinions in line with the risk appetite of the Council as stated within the Risk Management Policy as this would enhance transparency and communication with clients.
- Where high risk recommendations are identified ensure these support a negative audit opinion which is appropriately reflected in strategic and operational risk registers,
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect the strategic planning process and therefore the cumulative knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.





## External Quality Assessment Action Plan

	Priority	Issue Identified	Recommended Action	Management response	Officer responsible/ timescale	Status
1.	Review	<p><b>Internal Audit Charter (IAC)</b> The IAC is comprehensive regarding engagement reports however does not contain details of the requirement for the Chief Audit Executive (CAE) to deliver an Annual Report including an opinion in relation to risk management, governance and control.</p>	<p>Include an appropriate statement in the Internal Charter with regard to the provision of an Annual Report and align this with regard to the benefit of aligning the internal audit planning process with a continuous assessment of the risk environment faced by each client, in order to support the provision of the annual opinion regarding risk management, governance and control.</p> <p><b>PSIAS 1000</b></p>	<p>Agreed.</p> <p>To be implemented via a review of Internal Audit Charters for 2023/24.</p> <p>This will improve wider outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.</p>	<p>Audit Manager</p> <p>May 2023</p>	
2.	Review	<p><b>Performance appraisal</b> The self-assessment identified that the CAE's appraisal which is undertaken by the Chief Executive at Tamworth Borough Council (TBC) has not taken place. A new appraisal process is to be introduced at Lichfield District Council (LDC).</p>	<p>Ensure that a robust performance appraisal process is in place within the Internal Audit Team With regard to the Audit Manager consider Inviting observations from both Chairs of Audit Committee in advance of the performance appraisal, as this would provide valuable client feedback and reflect best practice.</p> <p><b>PSIAS 1110</b></p>	<p>Agreed.</p> <p>Ongoing review of Audit Manager performance maintained by Chief Executive at Tamworth BC and both Section 151 Officers. Discussions to agree further approach.</p>		

3.	Consider	<p><b>Declarations of interest</b> Each Council has adopted different practices regarding the protocol for declarations or conflicts of interest. Due to the independent nature of internal audit work it would be beneficial for internal audit staff and any contractors to confirm the position on an annual basis.</p>	<p>The CAE should obtain confirmation regarding potential conflicts of interest on 1 April each year and on appointment of any further staff or contractors undertaking internal audit engagements at the Councils.</p> <p><b>PSIAS 1100</b></p>	<p>Agreed</p> <p>Previous declarations of interest have been recorded but only updated if changes have occurred. However to comply with best practice will implemented annual reviews.</p>	<p>Audit Manager</p> <p>April 2023</p>	
4.	Review	<p><b>Audit Universe</b> The current internal audit planning model reflects use of a “standard audit universe’ to which a cyclical approach to reviewing areas of activity is applied in consultation with management. This is provided for in circumstances where the client risk management system cannot be relied upon. Internal Audits of risk management have provided positive opinions in relation to their application and as a result it would be beneficia therefore to increasing align the focus of strategic and engagement planning with each clients risk environment as this would enhance internal audits’ ability to demonstrate a commitment to helping each Council achieve its objectives.</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded within each Councils risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance. Internal Audit works with each client manager at the time of an engagement to identify significant risks; it would be opportune to increasingly recognise and promote the value of ‘Control Risk’ at an operational level and transparently integrate this within the planning process, identifying sources of assurance as a matter of routine. It would be beneficial therefore to increasingly align development of the</p>	<p>Agreed</p> <p>Review of current audit universes at both Tamworth and Lichfield.</p> <p>Change of current working practices to develop the auditing of control risks and linking into strategic and operational risk registers are both authorities. To be supported by the current reviews of Strategic Risk Registers which looks at mitigating controls. Additionally, this will improve wider outcomes in the Council so that the</p>	<p>Audit Manager</p> <p>March 2024</p>	

		<p>It may be beneficial to consider the content of each clients risk management process as the Audit Universe in future.</p>	<p>internal audit planning system with each Councils risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level.</p> <p>It may be that such an approach would also help embed effective risk management within each clients governance processes.</p> <p><b>PSIAS 2000/2010</b></p>	<p>audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.</p>		
5.	Consider	<p><b>Purpose of the system subject to review</b></p> <p>Audit Planning Memorandum currently contains a statement which reflects the 'Management Objective' of the area subject to review. Whilst the terminology is correct statements tend to focus on a generic statement regarding the internal control environment rather than focusing on what management are aiming to achieve, in accordance with Public Sector Internal Audit Standards (PSIAS) requirements, which recognise the value of focusing</p>	<p>The inclusion of a Management Objective is regarded as good practice however it may be beneficial to increasingly capture the specific aims of management in each review to which can be aligned the significant risks being faced within the area under review .</p> <p>This will assist with the discussions with client managers and specifically the identification of the significant risks which may impact upon achievement of the established objectives and upon which the assurance opinion should be based. The significant risks may be all or some of those identified with the risk management process as well as others recognised at the time of audit.</p>	<p>Agreed</p> <p>Audit Planning and pre-meetings will incorporate aims of management in the Audit Brief.</p>	<p>Audit Manager</p> <p>April 2023</p>	

		on operational management objectives.	<b>PSIAS 2201</b>			
6.	Consider	<p><b>Recognition of identified key controls</b></p> <p>The current risk management methodologies require identification of the primary controls which exist as well as the further mitigating controls which are to be developed. These are likely to represent the key controls upon which the audit should be based, as they represent 'Control Risk' and the implications should a failure of controls occur.</p>	<p>It would be beneficial to increasingly focus on what is regarded as a 'significant risk' within each Councils risk management processes and the associated primary controls as this would increase efficiency through allocating appropriate resources to those areas of most concern. There is limited feedback from the client survey which indicates that the Shared Service might provide increased focus on significant risk and introducing advice best practice within the audit approach and these may be areas where increased understanding of risk throughout the process may produce results which are regarded as adding value by clients.</p> <p><b>PSIAS 2010</b></p>	<p>Agreed.</p> <p>To be developed over 2023/24 towards full implementation.</p> <p>This will improve wider outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.</p>	<p>Audit Manager</p> <p>March 2024</p>	
7.	Review	<p><b>Consideration of Fraud</b></p> <p>The Team maintain a Fraud Risk Register demonstrating compliance with the standards regarding the recognition of potential fraud, however this is not directly considered when scoping engagements.</p>	<p>Ensure that the areas reviewed within an engagement include those where potentially significant fraud risks exist.</p> <p><b>PSIAS 2030</b></p>	<p>Agreed.</p> <p>As part of annual review of Fraud Risks and reported to respective Committees at Tamworth and Lichfield.</p>	<p>Audit Manager</p> <p>October 2023</p>	
8.	Review	<p><b>Quality Improvement Assurance Policy</b></p>	<p>It would be beneficial to update the policy in line with best practice and as</p>	<p>Agreed.</p>	<p>Audit Manager</p>	

		<p>The service has introduced a Quality Improvement Assurance Policy (QIAP) in accordance with the requirements of the standards. The policy focuses on consistent internal review of engagements, an annual assessment against the standards and the External Quality Assessment (EQA) review on a five year cycle. The Head of Internal Audit's Annual report confirms that aspects of the policy have been completed in a diagrammatic presentation.</p> <p>Industry best practice now reflects an extension of the quality review process to include consideration of wider performance in the form of KPI's, resources, skills and training requirements.</p>	<p>required confirm annually that all measures have operated during the year as well as summarise any outcomes influencing future development of the service within the Head of Internal audit's Annual Report.</p> <p><b>PSIAS 1300</b></p>	<p>QIAP to be reviewed at both Councils and implemented. Changes to be incorporated into the QAIP for 2023/2024.</p>	<p>July 2023</p>	
9.	Review	<p><b>Governance</b></p> <p>The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements. Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expenses.</p>	<p>In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report.</p>	<p>Agreed.</p> <p>To be implemented as part of AGS for 2022/2023 and ongoing development. To be linked with Monitoring Officer at LDC and internally within TBC.</p>	<p>Audit Manager</p> <p>March 2024</p>	

			<b>PSIAS 2110</b>			
10.	Review	<p><b>Risk Management</b> Internal Audit last reviewed risk management as an assignment in TBC (March 2021) and LDC (March 2022) providing a 'Reasonable' assurance opinion.</p>	<p>The standards require an annual opinion to be made in the Head of Internal Audit's Annual Report regarding the adequacy and effectiveness of each Councils risk management processes. It would therefore be beneficial to support the opinion with evidence of how this has been reached through a combination of the assurances gained at both a strategic level and at an operational level within engagements. It would be beneficial to document in this approach how any potential conflict of interest with regard to the Audit Manager and Principal Auditor's roles relating to risk management is managed.</p> <p><b>PSIAS 2120</b></p>	<p>Agreed</p> <p>To be implemented as part of Annual Internal Audit Reports submitted to each Council Audit Committees.</p>	<p>Audit Manager</p> <p>April 2023</p>	
11.	Consider	<p><b>Head of Internal Audit Annual Opinion</b> The current statement is largely based upon the work completed in the current financial year. Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks which each client is facing</p>	<p>In practice, the opinion is actually based upon the continuous thread or trend of assurance work completed in recent years as a result of the focus of internal audit plans, the wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes. Future opinions should state the full basis upon which the opinion has been reached.</p>	<p>Agreed.</p> <p>Updating of audit opinion for new financial year 2023/24</p>	<p>Audit Manager.</p> <p>April 2023</p>	

		and information from other assurance sources.	<b>PSIAS 2450</b>			
12.	Consider	<p><b>Internal Audit Risk Based Strategy</b></p> <p>The teams approach to assessment of the perceived risk at inherent and residual levels within an engagement is reflected in the grading of recommendations and opinions which are then used in reporting.</p> <p>Audit Engagement Plans and Reports contain an explanation of how the Internal Audit Team relate the level of risk evaluation to the conduct of the audit.</p> <p>It would be beneficial to ensure that the wording used is consistent with risk management terminology used by each client.</p> <p>PSIAS guidance emphasises that the focus of internal audit should be on 'significant' risk.</p>	<p>Consider reviewing the wording of definitions that support the grading of recommendations and opinions to better reflect risk appetite of each client. Particular attention should be given to the use of wording such as Fundamental and Significant. Within engagement reports this would then link to alignment of assurance opinions where fundamental or a series of significant recommendations automatically generated a 'Limited Assurance' opinion.</p> <p>Consider whether maintained a fourth level of assurance (being no assurance) is necessary.</p> <p><b>PSIAS 2420</b></p>	<p>Agreed.</p> <p>In conjunction with further reviews of wording and audit opinion, to be carried out in conjunction with these reviews.</p>	<p>Audit Manager</p> <p>December 2023</p>	



## Suggested Enhancements for consideration

	Issue Identified	Recommended Action	Management response	Officer responsible/ timescale	Status
1.	<p><b>Job descriptions</b> Current job descriptions are in a consistent form but are not routinely reviewed as part of the PDR process..</p>	<p>Best practice reflects regular update of job descriptions, it may be beneficial to review all job descriptions at the same time to ensure that any inter-dependencies are fully reflected, particularly as the two currently vacant posts are advertised</p> <p><b>PSIAS 1210</b></p>	<p>Agreed</p> <p>Review of job Descriptions to be undertaken.</p>	<p>Audit Manager.</p> <p>April 2023</p>	
2.	<p><b>Client surveys</b> Progress has been made in obtaining feedback from auditees following each audit through discussions with client managers and within the annual planning process. Current completion reflects 66% TBC and 82% LDC. This provides informal confirmation from clients regarding the Teams ability to deliver upon its responsibilities and particularly add value.</p>	<p>Internal Audit may find it useful to utilise Survey Monkey or similar technology for collecting feedback and capture similar feedback in relation to each contractors performance, as this can prove to be an efficient means of gathering an early response. Feedback should be included as part of the QAIP process.</p> <p><b>PSIAS 2000</b></p>	<p>Agreed.</p> <p>Will review the possibility and functionality of Survey Monkey and determine a way forward.</p>	<p>Audit Manager</p> <p>April 2023</p>	
3.	<p><b>Contract support</b> A contract is in place with each contractor which states that delivery of services should comply with the PSIAS.</p>	<p>In order to evidence that the Shared Service is compliant in overall terms it would be helpful if each contractor were requested to provide evidence that their work had been independently assessed in accordance with the PSIAS.</p>	<p>Agreed</p>	<p>Audit Manager</p>	<p>Complete</p>

		<b>PSIAS 1312</b>			
4.	<p><b>Key Performance Indicators</b> Completion of the Internal Audit Plan is regarded as the current focus of performance monitoring, although other indicators based on recommendations and opinions made in the year are recorded in the Head of Internal Audit's Annual Report. Good practice elsewhere utilises a range of quantitative and qualitative measures to demonstrate performance against the Internal Audit Charter.</p>	<p>Consideration could be given to devising a more comprehensive list of indicators and a summary of client feedback received. This may include:</p> <ul style="list-style-type: none"> <li>• Reports issued to agreed timescales</li> <li>• Recommendations accepted/not accepted by risk rating</li> <li>• Recommendations acted upon in a timely manner</li> <li>• Client satisfaction</li> <li>• Staffing levels and qualifications</li> <li>• Planned training completed</li> </ul> <p><b>PSIAS 1310</b></p>	<p>Agreed</p> <p>Will review current KPI's and in conjunction with client managers determine a suite of KPI's for Internal Audit.</p>	<p>Audit Manager</p> <p>March 2024</p>	
5.	<p><b>Training</b> The Internal Audit Team has developed a comprehensive training and skills matrix which includes reference to mandatory requirements although this has not been maintained. As the internal audit planning process devises a forward looking three year plan it would be beneficial to consider the future training needs of internal audit staff and include these in future resource planning.</p>	<p>Consider the benefits of using the priorities included in internal audit plans to identify potential courses or seminars which may provide increased understanding of the risk environment that will be reviewed. Ensure that training records are maintained and used to inform the QAIP.</p> <p><b>PSIAS 1210</b></p>	<p>Agreed</p> <p>Review training and implement as determined by the knowledge and experience of auditors.</p>	<p>Audit Manager</p> <p>March 2024</p>	

6.	<p><b>Internal Audit Manual</b> The Team has compiled an Internal Audit Manual which was last reviewed in December 2022.</p>	<p>Following completion of the EQA, consider revising the Manual to fully reflect current practice rather than generic example as this will assist when training new staff. It may be useful to include the Internal Audit Protocol document within the Manual as this represents an excellent way of explaining the internal audit process to all stakeholder</p> <p><b>PSIAS 2030</b></p>	<p>Agreed.  Implement changes as suggested.</p>	<p>Audit Manager  March 2023</p>	
----	----------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------	------------------------------------------	--

This page is intentionally left blank

# INTERNAL AUDIT PLAN, CHARTER & PROTOCOL 2023/24

Cabinet Member for Finance and Commissioning



Date: 23 March 2023  
 Agenda Item:  
 Contact Officer: Andrew Wood  
 Tel Number: 01543 308030  
 Email: [Andrew.wood@lichfielddc.gov.uk](mailto:Andrew.wood@lichfielddc.gov.uk)  
 Key Decision? NO  
 Local Ward Members Full Council

**AUDIT & MEMBER STANDARDS COMMITTEE**

## 1. Executive Summary

1.1 To consider the 2023/24 proposed internal audit plan, charter and protocol (**Appendix 1, 2 and 3**).

## 2. Recommendations

2.1 To consider and approve the 2023/24 proposed internal audit plan, charter and protocol (**Appendix 1, 2 and 3**).

## 3. Background

3.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Public Sector Internal Audit Standards (PSIAS)).

3.2 The Audit & Member Standards Committee's consideration and approval of an effective audit plan, charter and protocol is an important element in providing assurance to the organisation that arrangements are in place to provide an independent and objective opinion on the adequacy of the internal control environment.

3.3 The proposed audit plan is detailed at **Appendix 1**.

3.4 As part of the planning for 2023/24 the proposed plan of work has been developed based on;

- Analysis of strategic and operational risks including risks identified on the horizon which may affect the strategic and operational objectives of the Council;
- Reference to previous assurance work from previously completed audits;
- Improvements identified as part of the PSIAS External Quality Assessment completed in January 2023;
- Level of resources, following recent benchmarking exercises in 2020/21 identified a reduction of audit days from 447 (2019/20) to the current level of 298 audit days compared to 286 for (2022/23), this is comparable with other councils of a similar size and risk profile; and

- Agile approach.

Internal Audit's strategy has also been based upon the three lines of defence model of assurance which is detailed in **Appendix 1**. Additionally, we have reviewed the last three completed years of audit work which informed the audit plan and discussions with Section 151 Officer, the copy below shows the audits completed and the levels of assurance given.

Assurance Levels per completed audit year				
	Assurance Level	2019/20	2020/21	2021/22
Finance	Substantial	1	4	0
	Reasonable	0	2	4
	Adequate	1	0	0
	Limited	0	1	0
Other	Substantial	8	3	3
	Reasonable	9	1	8
	Adequate	11	0	0
	Limited	1	0	0

During the last three completed years there has been an overall improvement in the Council's systems of control as outlined by the assurance levels provided at completion of the audit. Previous audit practice, for example, concentrated on the high risk financial transactions of the council and these systems had previously gained 'Substantial' or 'Reasonable' assurance over a number of years. Previous audit plans have therefore taken these arrangements into account and we tailor our reviews to focus our resources accordingly. For 2023/24 and following the PSIAS External Quality Assessment the plan has specifically included areas around strategic risks faced by the council and these are summarised and documented in **Appendix 1**.

The table also highlights a similar situation in relation to non-financial audits that we undertake and again there has been a migration of assurance levels to 'Substantial' and 'Reasonable'.

- 3.5 During 2023/24 we will be looking to review the current shared agreement with Tamworth Borough Council which ends on 30 September 2023. Additionally, we have extended the contracts in place with E-Tec Business Services (IT Auditor) and BDO (general auditor services and these will commence on 1 April 2023).
- 3.6 During 2022/23 to maintain compliance with Public Sector Internal Audit Standards (PSIAS), we undertook an External Quality Assessment and this will be reported to this committee at its meeting in March 2023. An Action Plan has been agreed and performance against this will be reported quarterly to this committee. The Audit Plan for 2023/24 has been specifically linked to the Council's Strategic Risk Register and during reviews we will include and provide assurance in respect of the operational risks in each audit area.
- 3.7 The Audit Charter is detailed at **Appendix 2** and Protocol at **Appendix 3**. Minor changes, have been made and are highlighted on the documents.

Alternative Options	1. None required.
Consultation	1. Leadership team, which includes the Council's Section 151 Officer, have been consulted.
Financial Implications	1. The plan remains deliverable within budget.
Section 151 Officer Approved	Approved.
Legal Implications	1. None.
Monitoring Officer Approved	Yes
Contribution to the Delivery of the Strategic Plan	1. Delivery of the audit plan contributes to all aspects of the Strategic Plan.
Equality, Diversity and Human Rights Implications	1. No equality, diversity or human rights implications arising from this report.
Crime & Safety Issues	1. None arising.
Environmental Impact	1. A risk based review looking at the Council's preparation to de-carbonisation / climate change agenda is included on the draft plan.
GDPR/Privacy Impact Assessment	1. None required.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	Significant / high risk systems of internal control fail and go un-addressed.  Audit Manager	Likelihood: Green Impact: Red Severity: Red	The audit planning process ensures that audit resources are directed to areas of most significance / highest risk.	Likelihood: Green Impact: Yellow Severity: Green
B	The audit plan is unachievable,  Audit Manager.	Likelihood: Yellow Impact: Red Severity: Red	Available resources have been considered and optimised; and there is a continuous review process in place to monitor plan delivery. Regular updates are provided to Audit & Member Standards Committee.	Likelihood: Green Impact: Yellow Severity: Green

Internal Audit  
Draft Audit Plan, Charter & Protocol 2023/24  
March 2023





# Contents

- 01 Introduction**
- 02 Audit Planning**
- 03 Internal Audit Plan 2023/24**
- 04 Joint Working**
- 05 Charter**
- 06 Protocol**

## **Appendices**

- 01 Detailed Plan 2023/24**
- 02 Internal Audit Charter**
- 03 Internal Audit Protocol**

If you have any questions about this report, please contact Andrew Wood, Audit Manager (Shared Service) [Andrew.wood@lichfielddc.gov.uk](mailto:Andrew.wood@lichfielddc.gov.uk)

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Lichfield District Council accepts no responsibility and disclaims all liability to any third party who purports to use or reply for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

## 01 INTRODUCTION

### BACKGROUND

This report sets out the Draft Internal Audit operational plan for Lichfield District Council (LDC) for discussion and endorsement by the Audit & Member Standards Committee. The purpose of this plan is to identify the work required to achieve a reasonable level of assurance to be provided by Internal Audit in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and the Audit Committee with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work in accordance with an annual operational plan as endorsed by the Audit Committee.

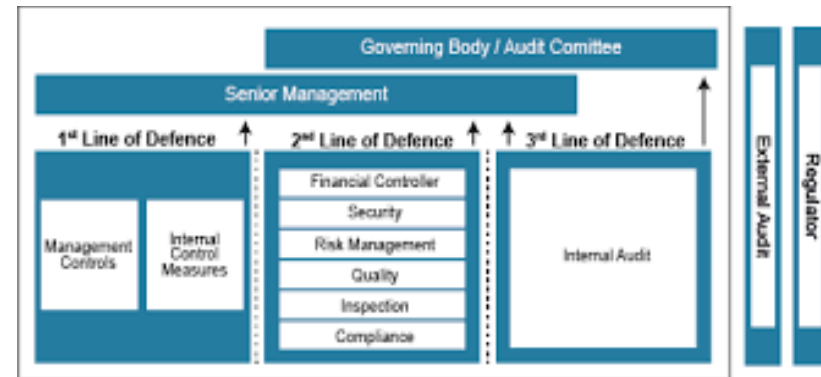
### 02 Audit Planning

As part of the planning for 2023/24, the proposed plan of work has been developed based on:

- **Key risks and priorities** – the plan for 2023/24 is based on an analysis of strategic and operational risks; strategic objectives; internal control and governance processes and other factors which may affect the year ahead, including any changes within the external environment and the sector.

- **Reference to previous assurance work** – a review of the outcome of previous audit and assurance work undertaken and where assurance is now required again.
- **Level of resources** – in 2020/21 a benchmarking exercise was undertaken to compare the level of audit resources with similar council's. Audit days were reduced from 447 days (2019/20) to 286 days (2020/21, 2021/22 & 2022/23) to be competitive with peers. The Council's risk profile has not changed this year, is not unusual (a reasonable assurance opinion has been given for the last 3 years) and the level of fraud risk has remained low. For these reasons the 2023/24 draft plan resources have not materially changed and we have planned for 298 audit days for 2023/24.
- **Agile approach** – our approach to the plan is one where we will respond to the changing assurance need, by having a level of contingency, enabling us to change the focus of the audits should the Council's organisational priorities or strategic risks change.

Internal audit's strategy is based upon a three lines of defence model of assurance:



Internal Audit seeks to identify assurances provided through the first and second lines of defence and selects the most appropriate method for obtaining assurance to support the Shared Head of Internal Audit's opinion and the Council's governance requirements.

### **03 Internal Audit Plan**

The detailed audit plan at **Appendix 01** sets out the assurance requirement in terms of core financial systems; strategic and operational risk; ICT; governance, fraud and other assurance. The draft plan is for a total of 298 days and in particular seeks to provide assurance over areas of higher risk.

### **04 Joint Working**

During 2021/22 we renewed the shared agreement with Tamworth Borough Council to include the use of LDC's auditor resources. This agreement will complete on 30 September 2023. Despite the previous pandemic and challenges with remote working, this has been successful in terms of customer feedback and performance against KPI's (reported to Audit & Member Standards Committee in audit's routine performance reports). We have additionally, where required used existing budgets to enable the procurement of both IT Auditor and general auditor services and this has been extended for a further 12 month period to end on 31 March 2024.

### **05 Charter**

The refreshed charter is at **Appendix 2**. Changes, which have been highlighted, are mainly to account for the replacement of the Head of Audit & Governance with an Audit Manager.

### **06 Protocol**

The refreshed protocol is at **Appendix 3** and changes are as above.

**APPENDIX 01: DETAILED AUDIT PLAN 2023/24**

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
Core Financial Systems	Creditors (SR1)	Risk based review covering the adequacy and effectiveness of controls around creditor payment systems.	10	48	Q3
	Payroll (SR1)	Risk based review of Payroll including assurance over the adequacy of controls around maintenance of systems, recording of data changes, approval for payment and database management to ensure payments are correctly made.	8		Q2
	Accounting (SR1)	Risk based review of the adequacy of Accounting arrangements across the council.	5		Q2
	Budgetary Control (SR1)	Risk based review of systems in place for the maintenance of budgetary control arrangements across the council.	5		Q4
	Major Projects (SR1, SR3, SR4)	Risk based review to ensure that major projects are run in line with best practice, financial arrangements are robust and project management protocols and controls maintained.	10		Q1

Assurance Required	Audit	Scope	Planned Day	Total Days	Proposed Quarter
	Housing & Council Tax Benefit	Risk based review of the adequacy of controls surrounding awarding of Housing & Council Tax Benefits to ensure with the correct assessment and awarding of benefit. Deferred from 2022/23.	10		Q2
Strategic & Operational Risks	Fees and Charges (SR1, SR3)	Risk based review of the adequacy and effectiveness of the controls in place to Ensure that fees and charges are regularly reviewed, updated and charged correctly.	10	80	Q1
	Taxi Licences (SR4)	Risk based review to ensure licencing arrangements are effectively controlled.	10		Q4
	Property Lease and Charges (SR2, SR4)	Risk based review regarding Property Leases and Charges to ensure that lease income is maximised and controls are effectively being implemented and operated.	10		Q2
	Strategic Housing (SR2, SR3, SR4, SR5)	A review of Strategic Housing to ensure effective management arrangements in place.	10		Q2
	LA Trading Company (SR1, SR2, SR3, SR4, SR5)	A review of the governance arrangement sand structures in place.	10		Q3
	Public Open Spaces – sale (SR1, SR5)	A review of council’s arrangements for the management of public open spaces and disposal.	10		Q4

Data Breach Management – DPO (SR4, SR7)	A review of data breach management arrangements.	10	Q3
Development Management Performance	Risk based review of Development Management Performance to include system based review of new systems.	10	Q3

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
ICT – as determined via Audit Needs Assessment completed February 2023	IT Structure and Strategy (SR7)	Risk Based review on Council’s IT Structure and Strategy	10	40	Q1 – Q4
	PCI DSS (SR7)	Assurance review of PCI DSS compliance deferred from 2022/23.	10		
	Business Systems (SR7)	Risk Based review of Business systems and data migration following implementation of new financial systems.	10		
	IT Incident Management (SR7)	Risk based of Council’s IT Incident Management and arrangements for maintenance of systems and recovery.	10		

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
Governance, Fraud & Other Assurance	Disabled Facilities Grant	Assurance statement	5	130	Q3
	Assurance Work	Assurance work on grants.	12		Q1-Q4
	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	5		Q4
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.	10		Q1-Q4
	Annual Audit Opinion	Production of the Annual Audit Opinion.	3		Q2
	Follow Up of Recommendations	To follow up all no and limited assurance reports and all high priority recommendations.	25		Q1-Q4
	Management and Planning	Management, planning and assurance reporting to Leadership Team and Audit & Member Standards Committee.	20		Q1-Q4
	Ad hoc / Consultancy / Contingency	Contingency allocation to be utilised upon agreement of the Chief Finance Officer.	10		Q1-Q4
	Risk Management	Supporting the Council's risk management systems.	30		Q1-Q4
	NFI	Compliance with and review of data matches	10		Q1-Q4
				298	





**INTERNAL AUDIT  
CHARTER**



**March 2023**

### Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1 <sup>st</sup> draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review
15/02/2019	1.01.04	Annual review
12/02/2020	1.01.05	Annual review
15/03/2021	1.02.06	Annual Review
14/03/2022	1.02.07	Annual Review
27/02/2023	1.02.08	Annual Review

### Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Simon Fletcher	Chief Executive	
Anthony Thomas	Assistant Director – Finance and Commissioning	
Andrew Wood	Audit Manager (Shared Service)	27/02/23

### Document Review Plans

This document is subject to a scheduled annual review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

### Distribution

The document will be available on the Intranet and the website.

## CONTENTS PAGE

	Page	
1	Definition of Internal Auditing	3
2	Mission Statement of Internal Audit	4
3	Purpose and Statutory requirements	4
4	Objectives	4
5	Role and Scope of Work	5
6	Proficiency and Due Professional Care	7
7	Authority	8
8	Organisation	8
9	Independence and Objectivity	8
10	Internal Audit Plan	8
11	Report and Monitoring	9
12	Quality Assurance and Improvement Programme	10

## 1 Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA – UK & Ireland).

The internal audit service will comply with the Public Sector Internal Auditing Standards (PSIAS) as adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

The mandatory core principles for the Professional Practice of Internal Auditing are:

- Demonstrate integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

This Charter will be periodically reviewed in consultation with senior management and the board. Changes to the International Professional Practice Framework will be incorporated as and when they occur.

The following posts will be designated as shown below in order to comply with the PSIAS.

<b>Post</b>	<b>Designation</b>
Audit & Member Standards Committee	Board
Leadership Team	Senior Management
Chief Executive	Head of Paid Service
Audit Manager	Chief Audit Executive

The Chief Audit Executive will report conformance to the PSIAS in the annual report to the Board.

## **2 Mission Statement of Internal Audit**

To enhance and protect the authority's values by providing risk-based and objective assurance, advice and insight.

## **3 Purpose and Statutory Requirements**

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information amongst the board, external and internal auditors and management.

In addition, the other objectives of the function are to:

- Support the Assistant Director Finance & Commissioning to discharge their s151 duties of the Local Government Finance Act 1972 by maintaining an adequate and effective Internal Audit service;
- Contribute to and support the Authority's objectives of ensuring the provision of and promoting the need for, sound financial systems; and
- Investigate allegations of fraud or irregularity to help safeguard public funds.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

*"A relevant authority must 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."*

The work of Internal Audit forms part of the assurance framework, however, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

## **4 Objectives**

The Chief Audit Executive's responsibility is to report to the Board on its assessment of the adequacy of the entire control environment.

It does this by:

- Providing assurance, which is risk based and objective and relevant (Internal Audit's primary role) to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, control and governance. Assurance to third parties will be provided where specific internal audit resources are allocated to the area under review (e.g. pension contributions).
- **Providing an Annual Audit Opinion in line with the Public Sector Internal Audit Standards.**
- Providing consultancy services to internal and external delivered services. Consultancy services are advisory and insightful in nature and will be performed at the specific request of the organisation with the aim to improve governance, risk management and control.
- Providing counter fraud and corruption services to include investigating fraud; increasing awareness of the counter-fraud responsibilities at all levels within and outside the Council; further embedding and supporting the effective management of fraud risk within the Council; setting specific goals for improving the resilience against fraud and corruption through the support of counter-fraud activities across the Council; and minimising the likelihood and extent of loss through fraud and corruption.

## **5 Role and Scope of Work**

The scope on internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's risk management, control and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of management and financial information processes and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;

- Monitoring the degree of coordination of internal audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
- Evaluating specific operations at the request of management, as appropriate;
- Support management upon the design of controls at appropriate points in the development of major change programmes.

With regard to Risk Management, internal audit will carry out individual risk based engagements to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks. This will be maintained in accordance with clear separation of duties between the Audit Manager and Principal Auditor to ensure that conflicts of interest do not occur.

Internal audit operate in an advisory capacity to:

- Report upon the level of risk maturity and scope for improvement;
- Facilitate the identification and assessment of risks;
- Coach management in responding to risks.

The CAE is responsible for:

- Developing the corporate risk management strategy in liaison with the Leadership Teams and Service Units;
- Promoting support and oversee its implementation across the Council;
- Monitoring and review the effectiveness of the risk management strategy;
- Assisting with the identification and communicate risk management issues to Units;
- Advising Corporate and Unit management teams on strategic and operational implications of risk management decisions;
- Supporting Corporate and Unit management teams in their liaison with any external partners when identifying and managing risk in joint projects.

With regard to Counter fraud activity, internal audit will carry out the following activities:

- Provide assurance on the adequacy of counter fraud arrangements
- Evaluate counter fraud reporting
- Review the implementation of the counter fraud strategy
- Evaluate preventative and detective controls
- Review control weaknesses that led to the fraud
- Review of the fraud risk assessment
- Provide support in the ethical and anti-fraud and corruption culture
- Share learning

- Champion the development of counter fraud capability
- Receive whistleblowing referrals
- Use data analytics to identify fraud
- Review of NFI matches
- Lead on a fraud and corruption risk assessment
- Develop the counter fraud and corruption strategy
- Undertake investigations

## **6 Proficiency and Due Professional Care**

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles of the Internal Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to Lichfield District Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Job descriptions and person specifications for each post within Internal Audit Services define the appropriate knowledge, skills and experience and are reviewed periodically.

Personal Development Reviews will be completed in accordance with the Council's policy. Staff will be supported to fulfil training and development needs identified in order to support their continuous professional development programme.

Internal Auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives with detailed Terms of Reference (including consultancy engagements);
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Where gaps exist in knowledge and skills in the formation of internal audit plans, the CAE can engage specialist providers of Internal Audit Services.

Internal Audit staff will be suitably supervised and work will be reviewed by a senior member of staff.



## **7 Authority**

The Internal Audit service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Lichfield District Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit service in fulfilling its roles and responsibilities.

## **8 Organisation**

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Assistant Director Finance & Commissioning.

The Board will receive performance reports on the internal audit function on a quarterly basis.

## **9 Independence and Objectivity**

The internal audit service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or reporting content to permit maintenance of a necessary independent and objective mental attitude.

Internal Auditors and contractors working on behalf of the council will be required to declare annually any potential conflicts of interest to the Audit Manager. Any conflicts identified will be reported to Section 151 Officer.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Regular review of the placement/location of Internal Audit team members will be completed to ensure independence, taking into account the consultancy work individual internal auditors have performed when completing assurance engagements. Internal auditors will not provide assurance in areas where they have been involved in advising management.

The internal audit service will also have free and unrestricted access to the Head of Paid Service and the Board.

The Chief Audit Executive will confirm to the Board, at least annually, the organisational independence of the internal audit activity.

## **10 Internal Audit Plan**

At least annually, the Chief Audit Executive will submit to Senior Management and the Board an internal audit plan for review and approval.

The internal audit plan will be developed based on prioritisation of the audit universe using a risk-based methodology, which takes into account, results from previous audits, stakeholders expectations, feed back from Senior Managers, objectives in strategic plans and business plans, the risk maturity of the organisation (including managements response to risk), and legal & regulatory requirements. The use of other sources of assurance and the work required to place reliance on them will be highlighted in the audit plan.

Contingency time will be built in to the annual audit plan to allow for any unplanned work. This will be reported on in accordance with the internal reporting process to the Board.

Approval will be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits required are deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control;
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

## **11 Reporting and Monitoring**

A written report will be prepared and issued by the Chief Audit Executive following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued in accordance with the Internal Audit Protocol.

The final internal audit report will include management's response and corrective actions in regard to the specific findings and recommendations. It will also include a timetable for anticipated completion of action to be taken.

The Internal Audit service will be responsible for following up all high priority recommendations and those arising from overall no and limited assurance reports to ensure that management have implemented them in the agreed timescales. It is management's responsibility to ensure that the agreed actions for medium and low priority actions are implemented. All outstanding recommendations will be monitored.

Results of audit follow up will be communicated as appropriate and a summary of the results will be reported to Senior Management and the Board.

Where significant risk exposures and control issues, including fraud and governance issues, are identified, they will be reported to the Board.

## **12 Quality Assurance and Improvement Programme**

The Internal Audit activity will maintain a quality assurance and improvement programme that covers all aspects on the Internal Audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will periodically report to the Board on the internal audit service purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

In addition, the Chief Audit Executive will communicate to Senior Management and the Board on the internal audit service's quality assurance and improvement programme, including results of ongoing internal assessments and improvement plans and external assessments. External assessments will be conducted at least every five years by a professionally qualified and experienced assessor.

The improvement plan resulting from the internal and external assessments will be reported to and monitored by the Board.

Signed by

Chief Audit Executive (Audit Manager)

Chairman of the Board (Chair of the Audit & Member Standards Committee)



---

**INTERNAL AUDIT  
PROTOCOL**

---



**March 2023**

## Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1 <sup>st</sup> draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review
15/02/2019	1.01.04	Annual review
12/02/2020	1.01.05	Annual review
15/03/2021	1.01.06	Annual review
14/03/2022	1.01.07	Annual review

## Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Simon Fletcher	Leadership Team Approval	
Anthony Thomas	Assistant Director – Finance and Commissioning	
Andrew Wood	Audit Manager (Shared Service)	14.03.22

## Document Review Plans

This document is subject to a scheduled annual review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

## Distribution

The document will be available on the Intranet and the website.

# LICHFIELD DISTRICT COUNCIL

## INTERNAL AUDIT PROTOCOL

### TABLE OF CONTENTS

<b>Introduction</b>	4
<b>Planning an Audit</b>	4
<b>Audit Approach</b>	4
<b>Interim Reports</b>	5
<b>Report Presentation</b>	5
<b>Report Content</b>	5
<b>Consultations</b>	6
<b>Finalisation of Report</b>	7
<b>Management Sign Off Of Report</b>	7
<b>Customer Satisfaction Questionnaire</b>	8
<b>Report Distribution</b>	8
<b>Risk Registers</b>	9
<b>Follow Up Reviews</b>	9
<b>Progress Report to the Chief Executive, S151 Officer and Audit &amp; Member Standards Committee</b>	10
<b>Annual Report to the Audit &amp; Member Standards Committee</b>	10
<b>APPENDIX A</b>	12
Managers	12
Heads of Service	12
Chief Executive	13
S151 Officer	13
Monitoring Officer	13
HR Manager	14
External Auditor	14
Leader	14
Cabinet Members	14
Audit & Member Standards Committee	14

# INTERNAL AUDIT PROTOCOL

## Introduction

The purpose of this protocol is to:

- Ensure a consistent approach is adopted to undertaking audit work;
- Establish a guide for management on timescales and responsibilities for dealing with internal audit reports issued;
- Ensure a consistent approach is adopted when dealing with internal audit reports within the Authority;
- Document the way in which reports are discussed with managers and the action required when replies are not received;
- Demonstrate to the Authority's external auditors that managers deal with Internal Audit work in an appropriate manner; and
- Ensure all necessary monitoring and reporting of Internal Audit work against the Annual Audit Plan is carried out.

The responsibilities of Officers and Members mentioned in this protocol are detailed in Appendix A.

## Planning an Audit

Each year an annual audit plan is produced based on a risk assessment detailing the audit areas to be reviewed during the year. The audit plan, including timings, will be discussed and agreed with the relevant Manager at the commencement of the new financial year.

For each audit, a brief should be prepared, discussed and agreed with relevant manager. This will normally require discussion with the relevant Assistant Director, unless otherwise instructed, to ensure attention is focussed on areas of greatest risk or concern. Managers are encouraged to raise areas of concern/additional areas with the Auditor, but cannot dictate which areas will or will not be reviewed, as this responsibility lies with the Audit Manager.

The brief should establish the objectives, scope and timing of the assignment and its resource and reporting requirement and agreed with the relevant manager.

Where agreement cannot be reached, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant Assistant Director, the Chief Executive or the S151 Officer.

If agreement is still not forthcoming, the matter will be raised with the Audit & Member Standards Committee Chairman.

## Audit Approach

Audit work should be undertaken using a risk-based audit approach.



At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to support an independent and objective audit opinion.

During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the reporting stage.

All audit work will be subject to an appropriate internal quality review process.

## Interim Reports

Interim reports are sent at the discretion of the Audit Manager. An interim report on an assignment may be sent where appropriate, for example:-

- a) where a matter arises which requires immediate action by management (e.g. serious weakness in control, evidence of fraud);
- b) where an assignment is unusually lengthy or extends over a long time period.

Any interim report made verbally to management shall be confirmed as soon as possible in writing.

## Report Presentation

All assignments will be reported as a formal report with an executive summary.

## Report Content

The Public Sector Internal Audit Standards (PSIAS) state that:

*"The basic aims of every internal audit report should be to:*

- *Give an opinion on the risk and controls of the area under review, building up to the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;*
- *Prompt management to implement the agreed actions for change leading to improvement in the control environment and performance; and*
- *Provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales."*

The final internal audit report includes the agreed action plan, which details the audit recommendations, priority, management response, officer responsible and timescale for implementation.

All reports will contain a scope and objectives and the internal audit observations of the assignment, together with the overall opinion on the adequacy of the internal control environment.

For each audit carried out Internal Audit arrives at a conclusion that assesses the level of assurance that can be placed on the system of internal control being reviewed in one of four categories. The category reflects the assessment of the robustness of the internal control environment with an opinion on whether the actual controls in place are being consistently applied. The categories of assurance are detailed in the table below.

Category	Category Description
Substantial Assurance	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Reasonable Assurance	While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied.
Limited Assurance	Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied.
No Assurance	Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area.

In addition, the recommendations made in internal audit reports (action plans) have been placed into one of three categories, namely, high, medium and low. The definitions are as below:

Recommendation Priority	Definition
High	High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.
Medium	Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency or further reduce the organisation's exposure to risk.

## Consultations

Findings may be discussed 'informally' with managers, during the course of the audit, where it is appropriate to do so. Although alterations to procedures may be made as a result of these discussions, the finding and recommendation will still be included in the internal audit report.

When an audit assignment has been carried out, the auditor shall draft a report showing the matters arising. Draft reports should be reviewed and their findings discussed with the Principal Auditor / Audit Manager.

Following conclusion of the quality review, the draft report will be submitted to the relevant Assistant Director and Manager of the Service.

A meeting will be arranged between the Auditor and the Manager. (The relevant Assistant Director will be notified of the exit meeting date and they may attend if they so require).

The purpose of such meetings is to discuss the report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations and management actions.

NB Recommendations made will not be amended unless further information has been provided which satisfies the auditor that this is appropriate.

The final decision regarding the content of the report lies with the Audit Manager.

The action plan should be updated with the results of the manager meeting (i.e. timescale for implementation, management response and officer responsible).

Any areas of disagreement between the Auditor and Management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those areas giving rise to significant risks that are not agreed should be brought to the attention of the relevant Assistant Director, the Chief Executive or the S151 Officer, and if necessary with Audit & Member Standards Committee.

## **Finalisation of Report**

The final report shall be prepared after management consultation and a final Managerial review will be undertaken.

## **Management Sign Off Of Report**

It must be stressed that no amendments to the detail of the report will be made at this point, as it is assumed that these would have been identified at the consultation stage. The exception to this would be amendments to the management responses.

If management require any amendments to the management responses included in the audit report, then they are required to notify the Auditor within one week of the report being issued.

If no response is received within this period, it will be assumed that management are happy with the report and as such the report will be formally issued to the relevant officers and members, as per this protocol.

In circumstances where extensions to the one week requirement have been requested, individual Auditors shall keep a record to monitor responses received from management to ensure timely issue of all audit reports.

The Principal Auditor shall be informed if any reports are unduly delayed. Should this be the case, they should usually be followed up in accordance with the following timetable:

No response after 1 week	Written reminder to Manager by auditor
No response after 2 weeks	Final written reminder to Manager by the Principal Auditor / Audit Manager (copy to relevant Assistant Director)

Where management responses are not forthcoming after a further week, despite reminders having been issued, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant Assistant Director, the Chief Executive or the S151 Officer.

If a response is still not forthcoming after a further week, the matter will be raised with the Audit & Member Standards Committee Chairman.

### Customer Satisfaction Questionnaire

The purpose of the Customer Satisfaction Questionnaire (CSQ) is to seek the Manager's view/perceptions of the quality of audit work carried out.

The CSQ will be sent electronically, following the issue of the final audit report, to the Manager.

The CSQ should be completed and returned to the Principal Auditor.

The Audit Manager shall review all completed CSQs received and shall arrange for any appropriate action to be taken following liaison, as necessary, with the auditor and/or manager.

Any CSQ which are not returned will be followed up and verbal feedback obtained if necessary.

### Report Distribution

Reports will be distributed electronically as follows:

- the relevant Manager
- the appropriate Assistant Director
- the Chief Executive
- the S151 Officer – executive brief only unless there are financial implications or limited/no assurance, then the whole report
- the Data Protection Officer in relation to data security issues
- the Monitoring Officer in relation to governance issues
- HR – only where staff conduct issues are identified
- the appropriate Cabinet member
- the Audit & Member Standards Committee
- the Leader of the Council

the External Auditor

The Audit Manager is copied into the e-mail of all final reports issued to ensure that performance information is recorded.

Where it is felt, by the Audit Manager, that the findings pose significant risks to the Council, the covering email to the Audit & Member Standards would indicate a potential need for Audit & Member Standards Committee involvement.

Occasionally, Internal Audit is required to undertake investigations of fraud or corruption within the Council or other work commissioned by the Chief Executive as Head of Paid Service. In these instances the distribution of reports will be made as appropriate i.e., HR Manager relating to staff matters will receive a copy of the report.

## Risk Registers

Any findings/recommendations identified as 'high risk' should be added to the relevant risk register. This is the responsibility of the risk register owner.

## Follow Up Reviews

Follow up reviews will be carried out by audit staff for all no and limited overall assurance reviews and for all high priority audit recommendations. The purpose of this work is to establish the implementation of key recommendations. The follow up will deal with those items expected to have been implemented in-line with proposed timescales indicated by the Auditee when the report was originally finalised.

On the basis of this work, auditors may conclude that recommendations have been:

- Fully Implemented
- Partially Implemented
- Not Implemented
- On-going
- Recommendation Superseded

A monthly routine report will be produced **quarterly for Assistant Directors** detailing the status of all outstanding audit recommendations and a summary will be reported to the Audit & Member Standards Committee as part of Internal Audit's routine performance report.

Where it is found that the recommendations in overall no and limited assurance reports have not been satisfactorily implemented or there are high priority recommendations still outstanding this will be pursued at a more senior level including raising the matter with the relevant **Assistant Director**, Chief Executive or the S151 Officer, and the Audit & Member Standards Committee.

## Progress Report to the Chief Executive, S151 Officer and Audit & Member Standards Committee

The Audit Manager shall produce a progress report on the work of Internal Audit, as a whole, which will tie in with the Audit & Member Standards Committee meeting cycle. This will be a summary of performance against annual audit plan objectives.

The purpose of the report is to highlight variations from the agreed annual plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.

Performance indicators shall be calculated and noted in the report. These are:

KPI	Description
a) Achieve the annual audit plan	90% of audits in the annual plan to be completed to draft report stage within 15 working days of the 31 March of each year.
b) Effective completion of audit work	i) 100% of draft reports are issued within 6 weeks of commencement of work. ii) 100% of closure meetings conducted within 5 days of completion of auditwork. iii) 100% draft reports to be issued within 10 working days of closure meeting.
c) Recommendations implemented	i) 100% of all high priority actions are implemented at follow up. ii) All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up.
d) Customer satisfaction	Achieve an average score of 4 or more.

Regular meetings will be held between the Chief Executive, S151 Officer and the Audit Manager to discuss the progress report, corporate audit matters arising and significant areas of risk.

## Annual Report to the Audit & Member Standards Committee

The Audit Manager shall prepare a written report to those charged with governance timed to support the Annual Governance Statement.

The Audit Manager's Annual Report to the Audit & Member Standards Committee must: -

- a) include an opinion on the overall adequacy and effectiveness of the Council's control environment;
- b) disclose any qualifications to that opinion, together with the reasons for the qualification;

- c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- d) draw attention to any issues the Audit Manager judges particularly relevant to the preparation of the Annual Governance Statement;
- e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- f) comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

A copy of the Annual Audit Report will be sent to the External Auditor and Leadership Team for information.



## APPENDIX A

# RESPONSIBILITIES OF OFFICERS AND MEMBERS IN RELATION TO THE INTERNAL AUDIT PROTOCOL

### Service Managers

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations/management actions.
- Confirm agreement to the action plan, which details management's response and timescales for recommendations to be implemented within a week.
- To provide feedback on the status of recommendations (and evidence) to Assistant Director in respect of quarterly updates to Internal Audit.
- Receive final internal audit report.
- Ensure recommendations are implemented in line with the agreed action plan.
- Complete and return the Customer Satisfaction Questionnaire to the Principal Auditor their view/perception of the quality of audit work carried out.
- Update service/departmental risk registers with high risk recommendations.
- Receive Limited and No Assurance Follow Up Review reports detailing the progress made towards implementation of recommendations made in agreed action plans.

### Assistant Directors

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor and manager, if they deem it necessary, to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.
- Receive notification from Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive final internal audit report
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive notification, during the year, of any major service issues arising. Examples of such issues are those, which the Audit Manager considers to be significant, i.e. frauds, irregularities or fundamental problems in their service area.
- Attend annual audit meeting with the Audit Manager, if required. The purpose of these meetings is to discuss the audit work carried out, to ascertain client satisfaction with the audit service and maintain good relations between the service area and audit.
- To attend the Audit & Member Standards Committee where finalised audit reports are followed up and reported as being limited or below, or where high priority recommendations have not been implemented in order for the Committee to ask any questions it may deem appropriate.

## Chief Executive

- Receive copy of the relevant final internal audit reports.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from the Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up..
- Receive progress reports, which highlight variations from the agreed annual plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out. The report should be received within one month of the end of the quarter.
- Attend regular meetings with the Audit Manager.
- Receive the annual audit report.

## S151 Officer

- Receive copy of final internal audit reports – executive brief only unless there are financial implications or limited/no assurance, then the whole report.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from the Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at follow up.
- Receive progress reports, which highlight variations from the agreed annual plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.
- Attend regular meetings with the Audit Manager.
- Receive the annual audit report.

## Monitoring Officer

- Receive copy of the final internal audit report where it is felt that the findings pose significant governance risks to the Council.

## HR Manager

- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council which involve employees.

## External Auditor

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Limited and No Assurance Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive the annual audit report.

## Leader

- Receive copies of all final audit reports.

## Cabinet Members

- Receive copy of final internal audit reports relating to their portfolio.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

## Audit & Member Standards Committee

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive notification if management do not respond to internal audit reports.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement high priority recommendations at follow up or where a no or limited overall assurance opinion review has not been assessed as being substantial or reasonable on follow up..
- Opportunity to request an audit report to be taken to the next appropriate Committee at which the relevant Assistant Director / designated officer would attend in order to answer any questions that may be raised.
- Opportunity to use the audit report as a catalyst to a specific piece of work to be undertaken
- Receive progress reports, based on the individual audit reports issued within the period.
- Receive the annual audit report.

## Data Protection Officer

- Copies of reports which outline issues in respect of data protection matters

This page is intentionally left blank

## Audit Committee Effectiveness Report

Cabinet Member for Finance & Commissioning

Date: 23 March 2023  
 Agenda Item:  
 Contact Officer: Andrew Wood  
 Tel Number: 01543 308030  
 Email: [Andrew.wood@lichfielddc.gov.uk](mailto:Andrew.wood@lichfielddc.gov.uk)  
 Key Decision? No  
 Local Ward Members Full Council



**Audit and  
 Member  
 Standards  
 Committee**

### 1. Executive Summary

- 1.1 This report is to undertake the annual self-assessment of Audit & Member Standards Committee effectiveness.

### 2. Recommendations

- 2.1 That the Committee considers the attached self-assessment checklist and endorses any actions to improve its effectiveness as appropriate.

### 3. Background

- 3.1 CIPFA published guidance on the function and operation of Audit Committees in local authorities and police bodies and this represents good practice for audit committees. The guidance updated in 2022 and incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2022)* (the Position Statement) is attached as **Appendix 1**. Additional guidance has been issued in conjunction with the Position Statement and this is attached as **Appendix 2**.
- 3.2 The Position Statement continues to make emphasis on the importance of Audit Committees being in place in all principal local authorities and it also recognises that Audit Committees are a key component of governance. 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.
- 3.3 **Appendix 3** provides a high-level retrospective review of the audit committee's effectiveness in accordance with CIPFA guidance. This was completed by the Audit Manager and is circulated to members for their comments and observations. The checklist provides an overall score of 198 out of 200 against the CIPFA guidelines. Where an Audit Committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are essential factors in developing an effective Audit Committee.
- 3.4 As part of the review it has been identified that there are potential changes being considered to strengthen the role of the Audit Committee such as;
- Appointment of a suitably qualified independent member to the Audit Committee
- 3.5 Due to comments made at this committee's November meeting and that there are upcoming elections in May 2023, it was agreed that the annual Member's Knowledge & Skills Audit would be deferred until

the new Committee was formulated for the new municipal year. This will be undertaken in June 2023 and then reported to Committee in the development of a member training plan for 2023/24.

Alternative Options	N/A
Consultation	Audit & Member Standards Committee members were circulated a pro forma self-evaluation questionnaire and the responses received incorporated into the Appendix.
Financial Implications	None identified.
Approved by Section 151 Officer	Approved.
Legal Implications	There are no specific legal implications.
Approved by Monitoring Officer	Approved.
Contribution to the Delivery of the Strategic Plan	An effective Audit & Member Standards Committee supports the delivery of the Council's strategic plan by seeking assurance that the Council's risk management, internal control and governance arrangements are sufficient and operating effectively.
Equality, Diversity and Human Rights Implications	There are no Equality, Diversity or Human Rights issues.
Crime & Safety Issues	There are no Crime and Community Safety Issues.
Environmental Impact	None arising.
GDPR/Privacy Impact Assessment	There are no specific implications.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	The Committee does not have the skills and knowledge available to ensure robust challenge and scrutiny of Council performance.  Audit Manager	Likelihood: Yellow Impact: Red Severity: Red	Annual review of Audit & Member Standards Committee effectiveness highlighting skills/knowledge gaps.	Likelihood – Green Impact - Yellow Severity of risk - Green (tolerable)

Background documents	CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2022)  Audit & Member Standards Committee routine reports, internal audit reports.
Relevant web links	

## 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 committees:

practical guidance for  
local authorities and police

2022 edition

[cipfa.org/](https://cipfa.org/)

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

# Guiding the audit committee

Supplement to the audit  
committee member guidance

2022 edition

[cipfa.org/](https://cipfa.org/)

Published by:

**CIPFA \ The Chartered Institute of Public Finance and Accountancy**

77 Mansell Street, London E1 8AN

020 7543 5600 \ [customerservices@cipfa.org](mailto:customerservices@cipfa.org) \ [www.cipfa.org](http://www.cipfa.org)

© October 2022 CIPFA

ISBN for this publication: 978 1 84508 5 650

ISBN for complete suite of Audit Committees: Practical Guidance for Local Authorities and Police (2022 edition): 978 1 84508 5 636

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

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

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



# Introduction

This section is aimed at officers responsible for guiding the audit committee. It will also be a useful reference guide for an audit committee member wanting to develop greater understanding of the committee's role or access additional resources.

It identifies the underpinning legislation, regulations, guidance or resources that the committee should be referencing in its operations.

It is a supplement to the guides *Audit committee member in a local authority* and the *Police audit committee member* and should be read in conjunction with the appropriate guide. It includes information for both authorities and police bodies.



# Contents

<b>CORE FUNCTIONS OF THE AUDIT COMMITTEE</b> .....	<b>7</b>
MAINTENANCE OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS.....	7
Good governance .....	7
Ethical values.....	8
Risk management.....	8
Internal controls.....	8
FINANCIAL AND GOVERNANCE REPORTING.....	11
Financial reporting.....	11
Annual governance statements .....	12
Other accountability reports .....	12
SUPPORTING ARRANGEMENTS FOR AUDIT AND ASSURANCE.....	12
Assurance frameworks and assurance planning.....	12
External audit .....	13
Internal audit.....	17
<b>GUIDING THE AUDIT COMMITTEE – WIDER FUNCTIONS</b> .....	<b>19</b>
WIDENING THE WORK OF THE COMMITTEE.....	19
WALES .....	19
TREASURY MANAGEMENT .....	19
SUPPORTING CORPORATE IMPROVEMENT PROGRAMMES.....	20
<b>INDEPENDENCE AND ACCOUNTABILITY</b> .....	<b>21</b>
INTRODUCTION .....	21
SECTOR AND DEVOLVED GOVERNMENT GUIDANCE .....	21
STRUCTURE AND INDEPENDENCE.....	22
Ensuring a dedicated audit committee .....	22
Committee size.....	22
Audit committees for collaborations.....	23
Delegated decision making and voting rights.....	23
ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS .....	23
ACCOUNTABILITY AND THE ANNUAL REPORT .....	24
<b>MEMBERSHIP AND EFFECTIVENESS</b> .....	<b>25</b>
COMPOSITION AND OPERATION OF THE COMMITTEE.....	25
POLITICAL BALANCE.....	25
APPOINTING THE CHAIR OF THE COMMITTEE.....	26
CO-OPTED INDEPENDENTS .....	26
Definition of a co-opted independent or lay member .....	26
MAKING BEST USE OF INDEPENDENT MEMBERS .....	27
Role descriptions for co-opted independent members.....	27
Selection process.....	28
Supporting members of the committee.....	28
Training needs analysis .....	30
Impact and effectiveness .....	30
<b>APPENDICES</b> .....	<b>31</b>



# Core functions of the audit committee

## MAINTENANCE OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

### Good governance

*Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016) is principles based and informs the approach to good governance adopted by police, 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 in practice.

CIPFA's **Financial Management Code** (FM Code) also attributes responsibility for the Framework to the authority's leadership team. This supports the principle of assurance in the FM Code.

Other useful resources for evaluating governance and identifying governance risks include the research resource co-ordinated by the Centre for Governance and Scrutiny, **The governance risk and resilience framework**. This sets out the risks to good governance and can be used as part of the evaluation process for the annual governance statement (AGS) or as part of other governance development work. Further information on the AGS is included in **Accountability and the annual report**.

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

In Wales, the **Local Government and Elections (Wales) Act 2021** provides for intervention by Welsh ministers to increase the extent to which a council is meeting the performance requirements.

#### Key references

**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 (CIPFA/Solace, 2016) as follows.

- **Delivering Good Governance in Local Government: Guidance Notes for English Authorities**
- **Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities**
- **Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities**
- **Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales**

Accounts and audit regulations (various according to location in the UK)

*The governance risk and resilience framework* (Centre for Governance and Scrutiny, 2021)

## Ethical values

As part of the annual governance review, the audit committee should consider how effectively the **Seven Principles of Public Life** are supported and whether the arrangements in place to achieve Principle A of the governance framework are fit for purpose:

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

Authorities have a standards committee to oversee member conduct and review complaints. This is not a function of the audit committee and combining the two committees should be avoided.

The standards framework for elected members in England was established by 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. The Committee on Standards in Public Life last reviewed standards in local government in 2019. The report recommended some amendments to the Act, but in its 2022 response, the Department for Levelling Up, Housing and Communities (DLUHC) did not commit to these. This remains an active topic that the audit committee should be aware of, and it should understand the steps its authority is taking to promote and ensure good ethical arrangements are in place.

The **Public Sector Internal Audit Standards** (PSIAS) include the ethical framework as a specific area of governance for internal audit work.

Whistleblowing arrangements support the development of ethical conduct and greater transparency and 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 committee may wish to review the effectiveness of the whistleblowing arrangements.

### Useful resources

**Upholding Standards in Public Life** (Committee on Standards in Public Life, 2021)

## 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 considered 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** (FMCP) (Home Office, 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.

## Internal controls

Internal control arrangements will be informed by service requirements and guidance specific to individual areas.

## Financial management

Regarding financial management arrangements, CIPFA's FM Code is a helpful resource to guide and evaluate the adequacy of financial management. The results of the assessment should be shared with the audit committee.

Audit committees in local authorities in Wales and in combined authorities are required to review and scrutinise the authority's financial affairs. Robust arrangements for financial control, understanding financial risks and longer-term financial planning will provide assurance to the committee. The review of financial statements also supports this objective. Care should be taken to not overlap with financial scrutiny. Tasks such as budget monitoring should not be undertaken by the committee.

## Value for money and best value arrangements

Making best use of resources is a key objective for all local authorities and 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." When the AGS is prepared, the adequacy and effectiveness of arrangements to secure value for money (VfM) should be included, as per CIPFA guidance.

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 commentary as defined by the [National Audit Office](#).
- **Scotland:** periodic reviews of best value from [Audit Scotland](#).
- **Wales:** annual improvement reports from [Audit Wales](#).
- **Northern Ireland:** a review of arrangements for the use of resources from [Northern Ireland Audit Office](#).

When the external auditor raises concerns about VfM, the audit committee should ensure there is a robust action plan to address the issues raised. A significant VfM failing is likely to lead to a formal recommendation or report in the public interest. In addition to the work of the auditor, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

The [Cities and Local Government Devolution Act 2016](#) requires the audit committee of a combined authority to review and assess the economy, efficiency and effectiveness of resource use in discharging the authority's functions. By reviewing the adequacy of the authority's arrangements, including aspects such as performance management, financial planning and procurement, the audit committee will be able to report and make recommendations to fulfil this responsibility. Where risks to value for money are identified to the audit committee – for example, through the work of internal audit – those concerns need to be escalated for management action.

## Countering fraud and corruption

The audit committee should include counter fraud and corruption within its agenda. This should not be limited to an update to the committee on a significant case of fraud or corruption. The audit committee's responsibility to have oversight of arrangements means that they should be able to judge whether the authority's arrangements are fit for purpose

CIPFA's [Code of Practice on Managing the Risk of Fraud and Corruption](#) (2014) 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 [Integrity matters](#)

(HMICFRS, 2015). The committee should understand the level of fraud risk the authority is exposed to and the implications for the wider control environment.

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 CIPFA guidance on the AGS recommends that the adequacy of counter fraud arrangements is evaluated and reported on in the AGS with reference to the *Code of Practice on Managing the Risk of Fraud and Corruption*. 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 (IASAB) guidance on **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.

### **Partnership governance, collaborations and subsidiaries**

Ensuring that the audit committee has oversight of significant collaboration arrangements or the governance arrangements for the authority's partnerships is important. This is an area of assurance that should be planned as new arrangements are established as well as considered regularly.

Guidance is available in CIPFA publications, including **Successful Collaborations in the Public Services: The Role of Internal Audit** (2021). This highlights some of the governance risks that should be considered in collaborative arrangements, together with the role of internal audit. It highlights the need for the audit committee's oversight of internal audit to extend to their work on collaborations.

CIPFA's **Effective Governance of Collaboration in Policing** (2021) provides an overview of the nature of collaborations in policing and guidance on governance for those arrangements, and other relevant guidance is included in **Principles for section 151 officers working with LEPs** (2018).

Recently, authorities that have the general power of competence have established trading companies to operate more commercial activities, including delivery of services and commercial investments. Some authorities have experienced difficulties with these activities, so the governance, oversight and risk management arrangements in them are likely to be of considerable interest to the audit committee. CIPFA has issued new guidance in 2022 in **Local Authority Owned Companies: A Good Practice Guide**.

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.



## FINANCIAL AND GOVERNANCE REPORTING

### Financial reporting

Local authority financial statements should follow the professional practices set down in the **Code of Practice on Local Authority Accounting in the United Kingdom** (CIPFA/LASAAC). The responsible financial officer is required by statutory provision to 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. These are the unaudited accounts. Currently, deadlines are subject to change because of the COVID-19 pandemic (and because of difficulties resourcing local audit in England). Therefore, it will be important to check the current regulations applicable.

At the time of publication, the latest regulations were as follows.

- In England, **The Accounts and Audit (Amendment) Regulations 2021**. This amends the Accounts and Audit Regulations 2015.
- In Wales, **The Accounts and Audit (Wales) (Amendment) Regulations 2018**. This amends the Accounts and Audit (Wales) Regulations 2014.
- In Scotland, **The Local Authority Accounts (Scotland) Regulations 2014**.
- In Northern Ireland, **The Local Government (Accounts and Audit) (Coronavirus) (Amendment) Regulations (Northern Ireland) 2020**. This amends the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

Further details about the requirements of the regulations are in Appendix A.

Prior to the current period of disruption, there had been a trend to reduce the elapsed time from the end of the financial year to the publication of audited statements. For example, under the 2015 regulations for English authorities and policing bodies, in practice, the latest date by which the statements would need to be confirmed (by the responsible finance officer) is 31 May, as the 30 working day period for the exercise of public rights must include the first ten days of June. In CIPFA's view, the timely availability of the statements is important for transparency and accountability.

Under the regulations, Scottish and Northern Irish authorities must all ensure that the financial statements are signed off by the chief financial officer (CFO) by 30 June. The Accounts and Audit (Wales) (Amendment) Regulations 2018 require preparation and publication to be completed by 15 June. Authorities have had flexibility to delay due to COVID-19, but deadlines will revert to those specified in regulations at an appropriate point.

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. The committee will also review them at the completion of the audit prior to publication. Authorities will formally approve the financial statements after the completion of the external audit.

The date the statements must be published by is set down in government regulations. Prior to COVID-related amendments, the latest date for publication was 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September, and Northern Irish authorities must publish by 31 October. These dates are intended to reflect the target for the completion of the audit. However, meeting the deadline is not a statutory requirement for the auditor; auditors will aim to meet this date, but their primary concern is to complete the audit to the required auditing standard.

The financial statements are the most technical aspect of the audit committee's remit and one that can be daunting for those elected members with no prior experience of financial reporting or

external audit. The differences in financial reporting practice in the accounts can also be daunting for those used to the presentation of company accounts. Additional attention should therefore be paid to this area when evaluating training needs.

## Annual governance statements

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 an authority body prior to being signed by the leading member and the authority's chief executive. Typically, audit committees undertake the role of reviewing the AGS prior to approval.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. These are set out in **Financial reporting** and in more detail in Appendix A. 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.

When the AGS is taken to the audit committee for review, it provides an opportunity to sense check the content, ensuring it is consistent with other information and is understandable to a lay reader.

The audit committee should be made aware of any updates to guidance on the AGS issued by CIPFA.

In March 2022, CIPFA's Practice Oversight Panel published an **advisory note on governance**. The note emphasises the importance of ensuring that annual reviews of governance and the AGS are robust. An effective audit committee is one important aspect of ensuring adequate internal challenge.

## Other accountability reports

The audit committee may be asked to comment on or review other accountability reports. If this is consistent with the purpose of the committee, then it may be appropriate – for example, if the report included extracts from the financial statements or AGS. It should always be clear whether the committee is being asked to formally endorse any report and consider whether this involves duplication with the work of other committees.

## SUPPORTING ARRANGEMENTS FOR AUDIT AND ASSURANCE

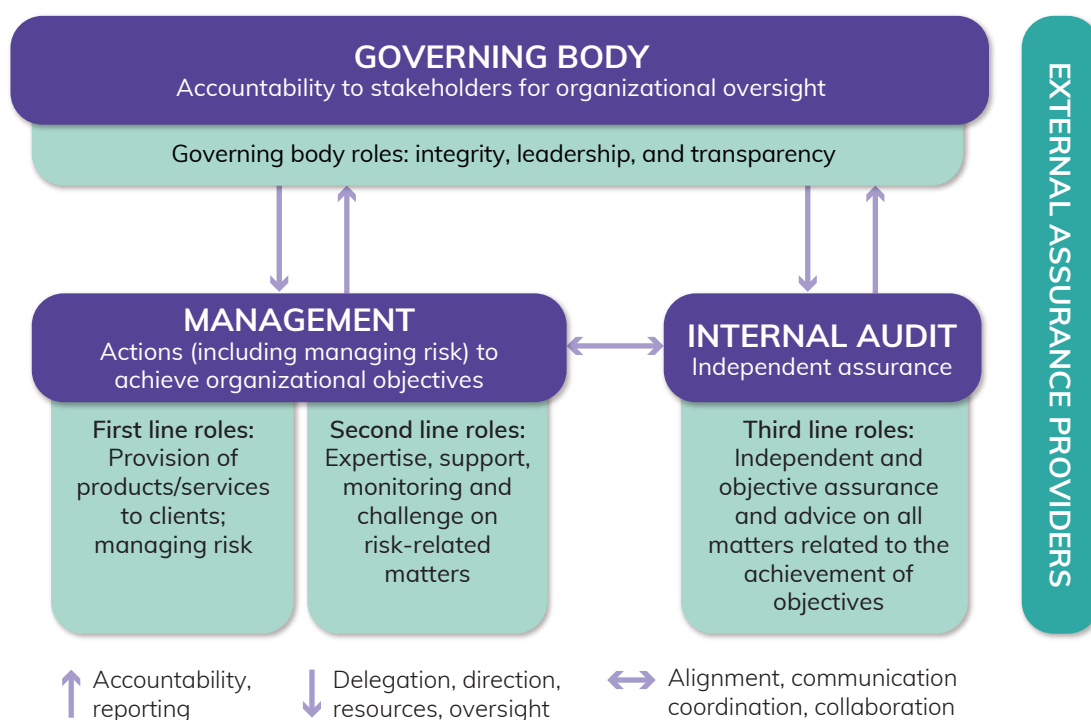
---

### Assurance frameworks and assurance planning

The organisation's leadership team should establish arrangements to provide them with assurance. The purpose of assurance is to provide greater certainty over the operation of internal control arrangements and the implementation of policies and decisions. In practice, an organisation will have a range of different means of obtaining assurance, some of which will already be embedded in management arrangements. Taken together, the suite of assurances forms the framework of assurance for the organisation. Some organisations have taken steps to map or summarise their arrangements in diagrammatic or tabular form.

CIPFA is in the process of establishing more detailed guidance for leadership teams on assurance frameworks, including high-level principles to define assurance frameworks. The purpose of this will be to raise awareness of assurance and the different forms it can take. Developing CIPFA guidance will include the **Three Lines Model** developed by the Institute of Internal Auditors (IIA).

Figure 1: The IIA's Three Lines Model



Copyright © 2020 by The Institute of Internal Auditors, Inc. ("The IIA"). All rights reserved.

Having a good understanding of different sources of assurance is important:

- for managers and the leadership team, to have confidence in how things work in practice
- for the audit committee, to help them fulfil their responsibilities
- for internal auditors, to inform risk assessments, supplement the direct independent audit work the team undertakes, and to inform the head of internal audit's annual opinion.

As well as understanding the organisation's arrangements for obtaining assurance, the audit committee should ensure that it receives the assurances necessary to support its annual report and to play its part in reviewing the AGS. While internal audit and external audit will be significant contributors to the overall assurance, the committee will need to be proactive in specifying additional areas where assurance is needed.

## External audit

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 CIPFA's **Guide to Auditor Panels** (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 can operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

## 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) for 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. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards. The table below summarises the potential threats that external auditors need to consider and manage.

### Understanding the potential threats to external independence

#### Self-interest threat

This is where there are, or are 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

This is where the audit could include a review of work performed or services or advice provided by the same firm or team.

#### Management threat

This is where the auditor has become involved in or associated with decision making at the audited body.

#### Advocacy threat

This is 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

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

#### Intimidation threat

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

Full details of the threats are set out in the [Revised Ethical Standard 2019](#) (FRC).

## Receiving and considering the work of external audit

The timetable of external audit work will be shaped by the appropriate Code of Audit Practice under which the audit is being undertaken and the appropriate regulations of the nation.

From time to time, there may be disruption to the routine timetable of audit. For example, the impact of the pandemic and recent difficulties experienced in England by local audit firms have contributed to delays. Where this is the case, the audit committee should actively monitor changes to timetables and audit plans, supporting good communication between the auditor and the authority to manage difficulties in the best possible way. Those officers responsible for liaising with the external auditor should ensure the audit committee is kept informed and any difficulties drawn to their attention at an appropriate stage.

One of the recommendations of the Redmond Review ([Independent review into the oversight of local audit and the transparency of local authority financial reporting](#)) was that the external audit annual report should be submitted to full council by the external auditor. The rationale behind the recommendation was that there were examples where serious issues raised with the audit committee by the external auditor were not then escalated to full council. As all councillors are “charged with governance”, they should be aware of serious issues and the overall results of the audit.

In addition, full council is more visible to the public than the audit committee, so it supports greater transparency. When this recommendation was considered by the stakeholder group advising DLUHC, it was considered important for the audit committee to receive the external auditor’s reports, allowing more in-depth discussion and formulation of recommendations for action in response to issues raised. It suggested that the annual report should be presented to full council in the way suggested by Sir Tony to improve transparency and strengthen the governance response, but it should also be accompanied by a report from the audit committee setting out its suggested response to the report. This was discussed in the technical consultation issued in July 2021 and CIPFA would support this approach.

Although the specific recommendation related to English local authorities, CIPFA would recommend that authorities in the rest of the UK also consider adopting a similar approach, if they do not do so already.

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

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

- at the planning stage, 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
- during the external audit process, including:
  - assessing 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
- at the reporting and finalisation stages:
  - ensuring there is feedback from key people such as the CFO and the head of internal audit on the conduct of the audit
  - supporting the auditor’s annual report to the full council, PCC, chief constable or other body as appropriate on the results of its considerations with the audit committee report.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit – for example, the quality reports from the FRC and contract monitoring reports from PSAA. Links to useful resources are provided at the end of the section.

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.

### Supporting audit quality

The audit committee should be an advocate for high audit quality. Ensuring that quality is maintained provides confidence in the audit opinion and recommendations. In its interactions with the auditors, the committee should be alert to the culture of the auditor and its regard for quality, its customer focus and how the firm creates a positive audit culture. The FRC's recent report **What Makes a Good Audit?** (2021) highlights the importance of governance and leadership in the audit firm.

*Senior leadership must live and drive the right values, ethics and behaviours that support high audit quality throughout the firm. There must be a clear link between remuneration/ promotion and audit quality. Learning from audit inspections (internal and external) must be shared across the audit practice and understood, including the sharing of good practice identified within the firm or from external reviews. There must also be an emphasis on the public interest role of audit. At the larger firms, Independent Non-Executives (INEs) already have an important role to play in holding leadership to account for improving audit quality and for driving an appropriate culture and mindset within audit.*

*What Makes a Good Audit? (FRC, 2021)*

The committee should ask about the auditor's approach to audit quality, including the support and training provided to the team on specialist areas within the scope of the audit. This is a particular consideration in England where audits are undertaken by a firm, as the team may not consist of auditors with extensive local audit experience. It should be noted that the key audit partner must have that experience and knowledge. This was an issue raised by the Redmond Review, and work to improve and support auditors is ongoing. For the firms, achieving improvements in this area is challenging, given wider issues around shortages of appropriate skilled auditors.

The audit committee needs to work with auditors and key officers to ensure that there is a shared understanding of objectives, expectations and outcomes from the audit. It is likely that the committee members will need support and training to improve their knowledge and understanding in this area unless they have had prior experience.

Where there are difficulties in the relationship between auditor and client, the audit committee should seek to support and resolve in an objective way that helps the delivery of a quality and timely audit.

### Assessing audit quality

In determining the committee's role in reporting on external audit, CIPFA has taken account of requirements in other sectors. The **UK Corporate Governance Code** (FRC, 2018) expects the audit committee to report annually on its assessment of the independence and effectiveness of external audit. The audit committee annual report should also include a section on external audit. This is addressed in **Independence and accountability**.

The FRC published **Audit Quality: Practice Aid for Audit Committees** in 2019 to help support audit committees. It should be noted that this is not tailored to audit committees in local

government, but some general principles remain relevant for an authority committee. Suggested good practice would be to consider the following areas:

- How the auditor interacts with the audit committee. Examples could include how auditors respond to questions or challenge from the committee and whether communications are open, constructive, informative and regular.
- Evidence from management. For example, the audit committee could ask management for evidence where auditors have challenged judgements and estimates.
- Asking auditors how they have demonstrated professional scepticism.
- Considering how well the auditor has met the agreed audit plan and addressed the risks it has identified.
- The quality of the audit report. For example, is it helpful and does it avoid generic 'boiler plate' content?

The audit committee should also review reports and assessments on their contracted auditor. The national audit bodies publish external reviews of their quality arrangements, and the FRC publishes an annual report of the local audit quality reviews undertaken for each firm. The committee should consider the conclusions on audit quality and areas for improvement and discuss with the auditor if appropriate. In England, PSAA may also publish reviews of interest to the committee on their monitoring of the audit contracts and satisfaction surveys, etc.

#### References and useful resources

[Financial audit quality arrangements](#) (Audit Wales)

[Major Local Audits: Audit Quality Inspection](#) (FRC, 2021)

[Managing audit quality](#) (PSAA)

[Quality of public audit in Scotland annual report 2021/22](#) (Audit Scotland)

[Quality assurance review 2021 executive summary](#) (Northern Ireland Audit Office)

## 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 for local government bodies, the [Local Government Application Note \(LGAN\) for the UK PSIAS](#) (CIPFA, 2019). 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 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 usually.

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

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

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 consider internal audit's quality assurance and improvement programme (QAIP) when conducting such a review.

The **CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations** (2019) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service. For the head of internal audit to operate an effective internal audit arrangement, the authority has a responsibility to ensure that they can operate effectively and perform their core duties. This responsibility exists regardless of the method of delivery of internal audit, whether in-house, outsourced or through some form of shared arrangement. The audit committee plays an important role in supporting the effectiveness of those arrangements in accordance with the CIPFA statement.

The committee should develop sufficient understanding of the effectiveness of internal audit and its adherence to professional standards. While helping to ensure that the right organisational arrangements are in place to support the internal audit service, the committee should also hold internal audit to account for the following:

- Conformance with professional standards.
- Effective management of resources.
- Focus on risks and assurance needs.
- Delivery of required outputs.
- Impact.

In 2022, CIPFA published **Internal audit: untapped potential** – a research report examining how internal audit supports public sector organisations and opportunities for the future. It features the results of an extensive survey that included management clients and audit committee members, as well as internal auditors. Included within are recommended topics that audit committee members should consider and discuss with their head of internal audit to help ensure that their organisation is getting the best out of internal audit.



# Guiding the audit committee – wider functions

## WIDENING THE WORK OF THE COMMITTEE

---

This chapter sets out relevant guidance where additional responsibilities are brought within the scope of the committee. The scope should not be extended so broadly that the committee effectively becomes a joint committee with other priorities. The areas covered in the guidance are relevant as a result of legislation or other standards.

## WALES

---

Governance and audit committees in Wales will need to have regard to the Local Government and Elections Wales Act 2021 in agreeing their terms of reference and conducting business.

The significant difference is the requirement to review the draft self-assessment or panel assessment report and make recommendations. The performance assessments are a new requirement introduced by the 2021 Act. Statutory guidance has been produced in [Performance and governance of principal councils](#) (2021).

In undertaking this role, CIPFA recommends distinguishing between the committee and the performance monitoring that scrutiny committees will have undertaken, which will be a contributory part of the self-assessment.

To enable the committee to perform its role effectively, members will need to be briefed on the requirements of the Act and supporting statutory guidance.

## TREASURY MANAGEMENT

---

CIPFA's [Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes](#) (2021) requires all local authorities to adopt four clauses defining responsibilities for treasury management.

It is possible for the audit committee to be nominated to undertake the scrutiny role.

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

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, and these can be used to support a training needs assessment and to plan development.

## SUPPORTING CORPORATE IMPROVEMENT PROGRAMMES

---

Where an authority has undergone an external inspection, peer review or other intervention, an improvement programme will be developed. It will be important for the audit committee to play its part in supporting the effective implementation of agreed actions.

The primary role of the committee is to receive assurances that implementation of the programme is on track. The programme will have links to external audit reports, future audit risk assessments and the AGS, so it is important that the committee is aware of the overall progress. A significant programme may have a dedicated board that can provide an update to the committee to fulfil its assurance needs.

There may be aspects of the programme that directly link to the work of the committee – for example, the adequacy of financial management arrangements or internal audit. In such cases, the committee may be more actively involved in monitoring progress.

# Independence and accountability

## INTRODUCTION

---

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

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

- Any statutory guidance applicable to the sector.
- Independence from the executive and political allegiances.
- How the structure of the committee can support its effective operation.

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

## SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

---

The local authority and police sectors are subject to differing laws and 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 because 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.

Audit committees in Wales have a clear statutory role established by the **Local Government (Wales) Measure 2011** and updated in the **Local Government and Elections (Wales) Act 2021**. 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 where 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** (the FMCP) (2018) 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 fire and rescue authority (PCC FRA). The 2018 edition of the FMCP includes guidance concerning audit committees in this event.

Those supporting audit committees should be aware of other regulations, including the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland. These regulate functions such as internal audit and the timing of the AGS review and the accounts. These functions should be undertaken by the audit committee, and the committee should have regard to the regulations.

## STRUCTURE AND INDEPENDENCE

---

### Ensuring a dedicated audit committee

In some local authorities, the audit committee has been combined with other committees. CIPFA recommends that the audit committee should have no other functions, and explicitly no decision-making role. The most common combinations adopted by authorities have been an audit and scrutiny committee or audit and standards committee. CIPFA recommends these are separated.

Sometimes the audit committee is given a different title, such as 'governance and audit' or 'audit and risk' committee. This would not be a problem if the terms of reference are consistent with the **CIPFA Position Statement**. Care should be taken to not delegate additional responsibilities that conflict with or dilute the audit committee focus.

The Centre for Governance and Scrutiny published **Audit committees and scrutiny committees: working together** (2021) to help understand the difference between scrutiny and audit committees. CIPFA contributed to the resource to help ensure it was consistent with its 2018 guidance on audit committees. It helps scrutiny members understand how the audit committee role is different but complementary and identifies opportunities for the committees to work constructively together.

### Committee size

Police audit committees should follow the FMCP guidance on a committee size of three to five members. In determining size, consider the quorum for meetings, as three allows little flexibility for meeting quorum at every scheduled meeting.

The sections on **Membership** and **Accountability** cover the composition of the committee between elected members and co-opted independents in an authority.

Committee size and composition are subject to legislation in some local authorities but not all.

Appendix A sets out the legislation for Wales and combined authorities in England.

In sectors outside local government, it is typical for audit committees to have fewer than six members. Among local authorities, there is a range of practice, including some committees that exceed ten members. In the sector, it can be harder to achieve the depth of knowledge and experience that is desirable with a small number, but equally it can be difficult to provide training and development for a large group.

CIPFA's recommendation is that a committee size of no more than eight members should be established. This allows sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.

CIPFA also recommends that the use of substitutes on the committee is avoided. Substitute members are less likely to have received relevant training. It also disrupts the continuity of the committee, where committee members can build on information received in previous meetings. We have found that where committee members are regularly substituted, it is an indication of lack of engagement with the committee's purpose and agenda.

### Audit committees for collaborations

Where an authority has a significant level of joint or collaborative working, there may be some value in considering the constitution of a shared audit committee. This will be particularly appropriate if there is a shared management team and single functions for finance, audit and risk management. There will need to be a formal agreement that sets out how the balance of representation between the partners will be decided, reporting lines and how the chair will be selected.

### Delegated decision making and voting rights

Currently, some authorities have delegated decisions such as the approval of the financial statements to the audit committee. This takes the audit committee beyond its advisory role. It also means that authorities will need to have regard to Section 13 of the **Local Government and Housing Act 1989**, which relates to the voting rights of non-elected committee members. Independent members cannot vote on matters for decision, whereas making recommendations to another decision-making body would not be impacted.

CIPFA recommends that the audit committee remains an advisory committee and does not have delegated powers.

## ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

---

In planning the number and timing of meetings and the committee agendas, key dates in the reporting and audit cycle will be important. In addition, the need for the committee to meet the expectations of auditing standards (both internal and external audit) in providing appropriate oversight will mean space on agendas should be found for these topics.

The CIPFA *Statement on the Role of the Head of Internal Audit in Public Service Organisations* (2019) emphasises the importance of organisational support for the role, including direct reporting lines to the audit committee and good engagement between the committee and head of internal audit. Providing the facility for private meetings between the head of internal audit and the audit committee will signal the importance of maintaining the independence of internal audit.

While private meetings between the committee and internal and external audit help to build a trusted relationship, those concerned should always make sure that the meeting is not used as a substitute for escalating governance concerns with responsible officers. The private meeting should always be in accordance with other principles of good practice – non-political and supporting transparent and accountable good governance.

Ensuring there is good support for the committee in agenda planning, minute taking, guidance and communications will help to build member confidence in the committee.

Providing a protocol about access to information that includes provision for co-opted independents will help to ensure clarity for both the committee members and officers. Members need to be confident that they have sight of relevant information in a timely way. There may be operational reasons why information is not immediately available or has to be treated in confidence, but it is important to explain this adequately.

## ACCOUNTABILITY AND THE ANNUAL REPORT

---

CIPFA has recommended that the audit committee should produce an annual report since the 2013 edition of this guidance. In this latest edition, the annual report is given greater prominence and has been included in the Position Statement. The report should be used to provide accountability to those charged with governance on compliance with the Position Statement and performance and provide assurance over the areas within its terms of reference.

The timing of the report will need to take account of whether there will be changes in committee membership – for example, because of elections or rotation of committee members at annual meetings. The conclusions of the report can support the AGS.

It is for the committee chair to prepare the annual report in consultation with the members, although some support may be required to check accuracy or provide supporting information. Developing the report will ensure the committee is better placed for any future policy developments that might expect more from accountability disclosures.

# Membership and effectiveness

## COMPOSITION AND OPERATION OF THE COMMITTEE

---

The composition of the committee will be one of the key factors in achieving a good audit committee. Some local government bodies will need to follow specific rules on composition. These are referenced below.

The composition of the audit committee for Welsh local authorities is determined by the Local Government and Elections (Wales) Act 2021, which requires local authority audit committees to have one-third lay members and a lay member as chair. The 2021 Act amended the Local Government Measure 2011, which established that 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.

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 Part 4 of the Order.

The FMCP determined that audit committees in policing must be composed solely of independent members.

## POLITICAL BALANCE

---

One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. Any audit committee that is a properly constituted committee of a local authority will need to abide by the rules concerning political balance, as outlined in Section 15 of the Local Government and Housing Act 1989. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

The **Local Government (Democracy) (Wales) Act 2013** inserted a requirement into the 2011 Measure for the audit committee to be politically balanced. This has not changed as a result of the 2021 Act.

The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 requires the audit committee to be politically balanced, taking into account the constituent councils.

Where the committee is strictly advisory and not subject to other requirements, full council can vote to waive the political balance requirement and specify other criteria to decide who should serve on the committee. For example, the selection of members with relevant knowledge and expertise could be prioritised.

The length of tenure of an elected representative on the committee will be influenced by the need to maintain political balance (if applicable) as well as other factors. In principle, establishing continuity on the committee is helpful to make the best of knowledge and experience. Some

rotation is also helpful to bring in a new perspective. CIPFA would suggest that two full terms on the committee would be a reasonable maximum.

## APPOINTING THE CHAIR OF THE COMMITTEE

---

Unless there is specific legislation or guidance in place on the selection of the committee chair, authorities can determine their own approach. To try and emphasise the independence and apolitical nature of the committee, some authorities specify that the position should be occupied by an 'opposition' member. This approach may be appropriate for some but will not be possible for all authorities – for example, where there are few opposition members.

## CO-OPTED INDEPENDENTS

---

### Definition of a co-opted independent or lay member

There are some definitions set out in legislation for some audit committees but not all.

The Local Government and Elections (Wales) Act 2021 defines a lay member as a person who:

- is not a member or an officer of any local authority
- has not been a member or an officer of any local authority in the last 12 months
- is not the spouse or civil partner of a member or officer.

Co-opted independent members of audit committees for combined authorities should be in accordance with the 2017 Order as follows.

- Not a member, co-opted member or officer of the authority.
- Not a member, co-opted member or officer of a parish council in the area of the principal authority.
- Not a relative or close friend of one of the above.
- Not a member, co-opted member or officer of the authority or parish council in the last five years.

There are no statutory definitions of 'independent' for audit committee members in local authorities in England, Scotland or Northern Ireland.

The independent members of the police audit committees in England and Wales must all be independent of the PCC and the force. The FMCP does not define this any further.

Where there is no established definition, authorities are recommended to establish their own policy before commencing recruitment. This will provide clarity to potential candidates and support the independence of the committee. CIPFA would suggest alignment to the combined authority requirements as the basis for a suitable policy.

As long as any requirements are met, it is possible for an individual to be a co-opted member of more than one local government body.



## MAKING BEST USE OF INDEPENDENT MEMBERS

---

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

- Over-reliance on the independent members by other committee members in local authorities can lead to a lack of engagement across the full committee.
- A lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports.
- Both independent members and officers/staff must try to establish an effective working relationship and appropriate protocols for briefings and access to information.

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

### Role descriptions for co-opted independent members

Where the authority is recruiting members to co-opt onto the audit committee, a clear role description should be established. The following areas should be addressed:

- The role of the co-opted independent, including expected time commitment and location of meetings.
- The suggested appointment period and options for renewal (two terms would be a suggested maximum appointment period).
- The definition of 'independent' applicable to the role.
- Any restrictions or conflicts of interest that would make a candidate unsuitable. As the role is non-political and requires working with elected representatives in a local authority, it is recommended that candidates should not be political party members.
- Vetting requirements (particularly for police committee members).
- Desired knowledge, experience and skills.
- Remuneration and expenses.
- The expected conditions of engagement, including adherence to the authority's code of conduct, disclosure of interests, etc.

Consideration should also be given to attracting suitable candidates. While it is up to each authority to decide, authorities may want to consider the following:

- Selecting candidates beyond the local area. If candidates are able and willing to travel to attend the required meetings and supporting activities, then living outside the authority area should not be a barrier to suitability.
- Working with other authorities in the region to promote and support opportunities to be an independent member.
- Advertising nationally or using specialist agencies if professional knowledge and skills are required.
- Promoting the role through means in addition to advertising. For example, a change to the constitution of the audit committee could be part of a wider governance improvement programme that could be publicised locally or through council channels of communication.
- Council orientation and support that will be provided in the role.

- The opportunity for an informal discussion on the role with a senior officer or committee chair.
- Ensuring an easy application process (see below).

Under the combined authorities order, the vacancy must be publicly advertised.

## Selection process

The authority's HR team will be able to advise on the process for recruitment. Normal practice in recruitment for non-executive roles such as this will be a CV and supporting letter, and adopting this approach may assist in attracting candidates. This may be a deviation from the process of recruiting a member of staff, however, so early discussion with HR is advised.

The format of selection is for the authority to decide, but inclusion of the current committee chair in some way would be helpful for the candidate.

As well as a formal interview, candidates could be invited to meet the PCC, chief constable or deputy chief constable, senior councillors or officers to emphasise the value of the committee.

## Supporting members of the committee

Establishing a training programme and ongoing support for committee members is essential to ensure that they can confidently and effectively discharge their responsibilities. Establishing a budget will ensure that training can be ongoing rather than ad hoc.

Exact needs will depend on the composition of the committee and members' existing knowledge and experience. The following table sets out the core elements.

Development area	Core content	Target audience
<b>Induction – the authority</b>	Introduction to the authority, including: <ul style="list-style-type: none"> <li>• governance structures</li> <li>• plans, strategies and priorities of the authority</li> <li>• local government context.</li> </ul>	Primarily for co-opted independent members who are new to local government/police.
<b>Induction – the audit committee</b>	<ul style="list-style-type: none"> <li>• Terms of reference.</li> <li>• CIPFA Position Statement and guidance.</li> <li>• Key relationships – CFO, head of internal audit, external auditor, committee support.</li> </ul>	All members new to the committee.
<b>Core knowledge areas</b>	Basic knowledge for all areas outlined in the knowledge framework. <ul style="list-style-type: none"> <li>• Good governance and ethical framework</li> <li>• Risk management</li> <li>• Internal controls</li> <li>• Financial management</li> <li>• Value for money</li> <li>• Counter fraud and corruption</li> <li>• Partnerships and collaborations</li> <li>• Assurance framework</li> <li>• Financial reporting</li> <li>• Annual governance statement</li> <li>• Internal audit</li> <li>• External audit</li> <li>• Treasury management (where applicable)</li> <li>• Performance assessment (Wales) (where applicable)</li> </ul>	All members of the committee, tailored appropriately to existing knowledge.
<b>Briefings and guidance</b>	Targeted support for members on: <ul style="list-style-type: none"> <li>• aspects where members need additional support, eg guidance on understanding the financial statements</li> <li>• the development of more in-depth knowledge and understanding</li> <li>• ad hoc briefings on new developments in the sector (for example CIPFA’s audit committee update resource, horizon scanning updates from external auditors, etc)</li> <li>• updates on new developments or changes at the authority.</li> </ul>	All members.  Co-opted independent members.
<b>Webinars, training and networking events</b>	<ul style="list-style-type: none"> <li>• Attending relevant webinars or events to develop more in-depth knowledge or updates.</li> <li>• Networking and sharing with audit committee members in other authorities to learn from others and build a network of support.</li> <li>• A range of formal events and webinars are available from a range of providers, eg regional forums.</li> </ul>	Chairs and all members

## Training needs analysis

It is helpful to undertake an analysis of training needs to identify which areas should be prioritised for training and support. Some of the core areas involve technical standards and are complex – for example, financial reporting, audit quality and treasury management. These will need regular attention to maintain committee effectiveness.

The knowledge framework can help with a training needs analysis. It can be done at any point, but the annual assessment should reflect on whether the analysis is up to date and the planned programme of support sufficient to address the priority areas.

## Impact and effectiveness

To develop the committee and provide assurance via the annual report, it is recommended that the committee is supported in a self-assessment. Alternatively, an independent review can be undertaken.

The appendices provide resources to support self-assessment and to encourage reflection on the impact that the committee has.

CIPFA has identified key indicators to inform the performance review of the audit committee. These indicators are all aspects of governance, risk, control and audit that are within the audit committee's scope of influence. While they are not solely within the control of the audit committee, weakness in these areas could indicate that the audit committee is failing to have sufficient impact.

## Problem solving

Where self-assessment indicates problems, or where those interacting with the committee report it to be under-performing, swift diagnosis and action should be planned. Appendix D highlights some areas of difficulty the committee might experience. Usually, problems arise because of misapprehension of the committee's role or inadequate training or support. Occasionally, behaviours from individual members can also contribute. These issues may be more difficult to resolve, especially if they are symptomatic of wider governance problems in the authority.

Significant weakness in the audit committee is likely to be highlighted by the external auditor as part of their governance review or as part of a peer review.

# Sector and devolved government guidance

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

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

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

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

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

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

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

<b>Local authorities in England (including combined authorities and fire and rescue authorities)</b>	
Relevant government guidance	<a href="#"><u>Accounts and Audit (England) Regulations 2015</u></a>
<b>Local authorities in Wales</b>	
Relevant government guidance	<a href="#"><u>Accounts and Audit Regulations (Wales) 2014</u></a> and the <a href="#"><u>Accounts and Audit (Wales) (Amendment) Regulations 2018</u></a>
<b>Local authorities in Scotland</b>	
Relevant government guidance	<a href="#"><u>Local Authority Accounts (Scotland) Regulations 2014</u></a>
<b>Local authorities in Northern Ireland</b>	
Relevant government guidance	<a href="#"><u>Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015</u></a>
<b>Police in England</b>	
Relevant government guidance	<a href="#"><u>Accounts and Audit (England) Regulations 2015</u></a> (see also the statutory guidance <a href="#"><u>Financial Management Code of Practice for the Police Forces of England and Wales</u></a> (FMCP) (Home Office, 2018))
<b>Police in Wales</b>	
Relevant government guidance	<a href="#"><u>Accounts and Audit Regulations (Wales) 2014</u></a> and the <a href="#"><u>Accounts and Audit (Wales) (Amendment) Regulations 2018</u></a> (see also the <a href="#"><u>FMCP</u></a> )

### Financial reporting deadlines

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





# Suggested terms of reference – local authority

## INTRODUCTION

---

This appendix contains suggested terms of reference for local authorities.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. Additional functions should be included where required.

Where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. The audit committee's terms of reference and the audit charter should align.

## SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

---

### Governance

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

### Statement of purpose

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

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

### Governance, risk and control

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

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

## Financial and governance reporting

### Governance reporting

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

### Financial reporting

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

## Arrangements for audit and assurance

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

### External audit

- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To consider additional commissions of work from external audit.

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

### Internal audit

- To approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - regular reports on the results of the QAIP
  - reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- To consider the head of internal audit's annual report, including:
  - the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
  - the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS).
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations (see Appendix A).

- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### Accountability arrangements

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

# Suggested terms of reference – police

## INTRODUCTION

---

This appendix contains suggested terms of reference for the audit committee of the PCC and chief constable. The police audit committee must ensure that its terms of reference are in accordance with the FMCP (Home Office, 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. Additional functions should be included where required.

Where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. The audit committee's terms of reference and the audit charter should align.

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

---

### Governance

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

### Statement of purpose

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

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

### Governance, risk and control

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

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

## Financial and governance reporting

### Governance reporting

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

### Financial reporting

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- To review the annual statements of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's reports to the PCC and the chief constable on issues arising from the audit of the accounts.

## Arrangements for audit and assurance

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

### External audit

- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the auditor panel as appropriate.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.

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

### **Internal audit**

- To recommend for approval the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To review the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To consider significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to recommend and periodically review safeguards to limit such impairments.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - regular reports on the results of the QAIP
  - reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- To consider the head of internal audit's annual report, including:
  - the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
  - the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS).
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the OPCC or force, or where there are concerns about progress with the implementation of agreed actions.

- To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations (see Appendix A).
- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### Accountability arrangements

- To report to the PCC and chief constable on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to the PCC and chief constable on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- To publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement.



# Audit committee members – knowledge and skills framework

## CORE AREAS OF KNOWLEDGE

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

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

See also **Treasure your assets** (Centre for Governance and Scrutiny, 2017).

## SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

---

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

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

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

## CORE SKILLS

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

Skills	Key elements	How the audit committee member is able to apply the skill
<b>Strategic thinking and understanding of materiality</b>	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.
<b>Questioning and constructive challenge</b>	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.
<b>Focus on improvement</b>	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.
<b>Able to balance practicality against theory</b>	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.
<b>Clear communication skills and focus on the needs of users</b>	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.
<b>Objectivity</b>	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.
<b>Meeting management skills</b>	Chair the meetings effectively: summarise issues raised, ensure all participants can contribute, and focus on the outcome and actions from the meeting.	These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.



# Problem-solving difficulties with the audit committee

It is not uncommon for audit committees to face difficulties or barriers in fulfilling their potential effectiveness. Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

Areas of difficulty	Possible causes	Possible improvement options
<b>Lack of experience and continuity of knowledge among audit committee members.</b>	<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. To enhance continuity, the authority should consider recruitment of independent members.</li> </ul>
<b>Audit committee members do not feel confident in their knowledge of particular areas.</b>	<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>
<b>Independent members lack knowledge of the organisation and lack connections with key managers.</b>	<ul style="list-style-type: none"> <li>Poor induction.</li> <li>Limited opportunities to engage with the organisation outside of 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>
<b>Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion.</b>	<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>
<b>The audit committee spends too much time on minor details rather than underlying arrangements of governance, risk and control.</b>	<ul style="list-style-type: none"> <li>Agenda management fails to prioritise key areas.</li> <li>The chair does not intervene to keep the 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>

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



# Self-assessment of good practice

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

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

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

## Audit committee purpose and governance

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

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

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

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

### Membership and support

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

### Effectiveness of the committee

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

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

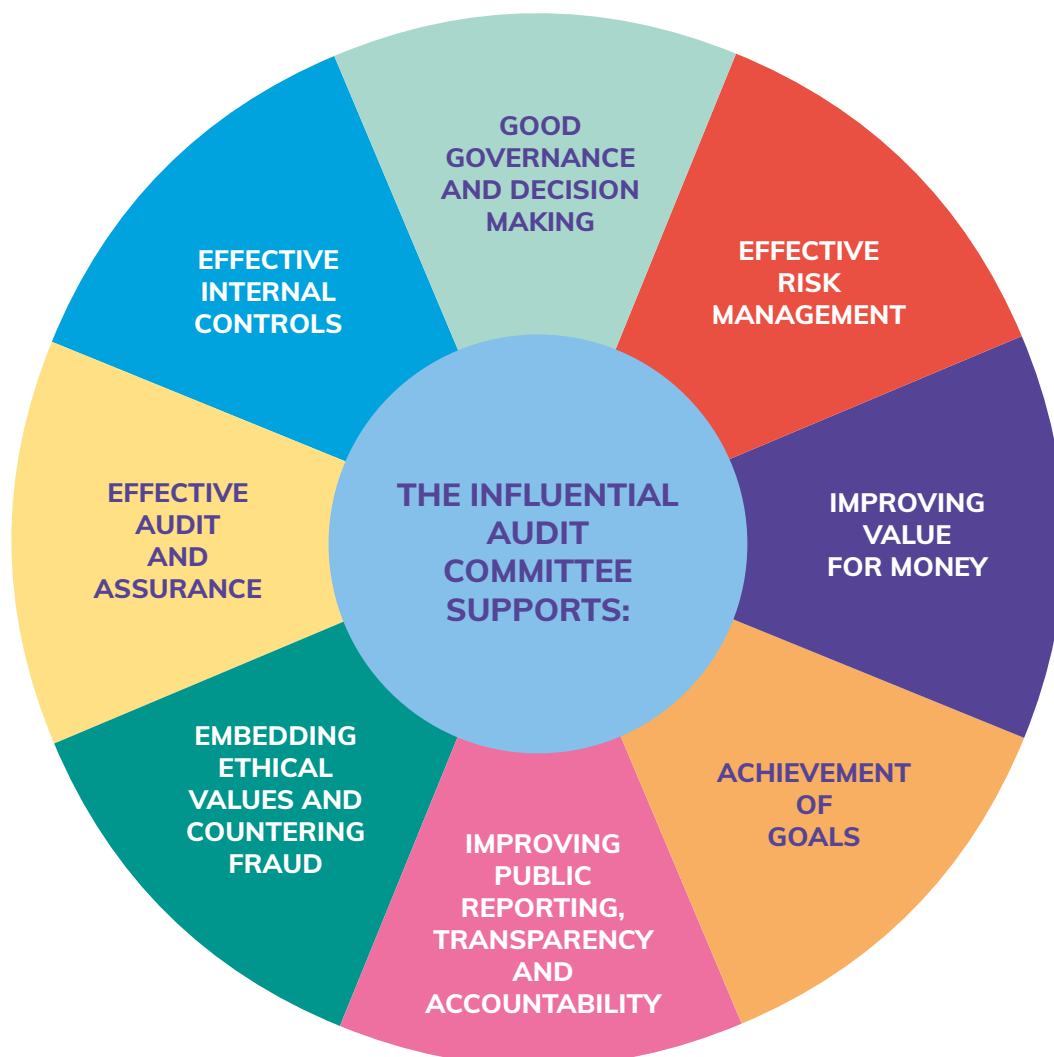
\*\* 40 questions/sub-questions multiplied by five.

# Evaluating the impact and effectiveness of the audit committee

An audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'.

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

**Figure 1: The influential audit committee**



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

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

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

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



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

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

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

## OVERALL QUESTIONS TO CONSIDER

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

## REPORTING RESULTS

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

77 Mansell Street, London E1 8AN  
+44 (0)20 7543 5600

[cipfa.org/](https://cipfa.org/)

10/2022

# Self-assessment of good practice

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

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

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

## Audit committee purpose and governance

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

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

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

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

### Membership and support

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

### Effectiveness of the committee

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

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

\*\* 40 questions/sub-questions multiplied by five.



### AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2022/23

Item	21 July 2022	21 Sept 2022	30 Nov 2022	18 Jan 2023 Special	2 Feb 2023	23 Mar 2023	19 April 2023	Comments
<b>FINANCE</b>								
Annual Treasury Management Report	√							
Mid-Year Treasury Management and Local Audit Update Report			√					
Accounting Policies and Estimation Uncertainty							√	
Statement of Accounts				√*				*The deadline for 2021/22 accounts is 30 November. It is proposed that this will change to 30 September 2022 for the financial years 2022/23 to 2027/28 to match the next External Audit contract period.
Treasury Management Statement and Prudential Indicators					√			
Audit & Member Standards Committee Practical Guidance*								*Only relevant if there is updates to guidance so may not be needed
CIPFA Financial Management Code*								*Only relevant if there is updates to guidance so may not be needed
CIPFA Resilience Index	√							
Local Audit Update*								*Only relevant if there is updates to guidance so may not be needed
Overview of the Council's Constitution in respect of Contract and Financial Procedure Rules*								*Only relevant if there is updates to guidance so may not be needed
Annual report on Exceptions and Exemptions to Contract Procedure Rules 2021/22	√*							*Circulated as a briefing paper
Admin System Access Update						√*		* To be circulated as a briefing paper
<b>INTERNAL AUDIT</b>								
Chair of the Audit Committee's Annual Report to Council							√	
Annual Report for Internal Audit (including year-end progress report)							√	

## AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2022/23

Internal Audit Plan, Charter & Protocol 2023/24						√		
Internal Audit Progress Report	√		√		√		*	*Included in the 'Annual Report for Internal Audit'
Review of the Effectiveness of the Audit & Member Standards Committee						√		
Quality Assurance and Improvement Programme /Public Sector Internal Audit Standards	√							
Risk Management Update	√		√		√		√	
Counter Fraud Update Report including Counter Fraud & Corruption/Whistleblowing/Anti-Money Laundering/ Prevention of Tax Evasion Policies			√					
Public Sector Internal Audit Standards and External Quality Assessment						√		
<b>GOVERNANCE &amp; PERFORMANCE</b>								
Annual Governance Statement							√	
GDPR/Data Protection Policy			√		√		√*	*To be circulated as a briefing paper
Annual Report of the Monitoring Officer – Complaints		√*						*Circulated as a briefing paper
The Annual letter for Lichfield District Council from the Local Government Ombudsman			√*					*Circulated as a briefing paper
RIPA reports policy and monitoring		√						
Terms of Reference								
Taxi Licencing Update					√*			*Requested at the November 2022 committee
<b>EXTERNAL AUDITOR</b>								
Audit Findings Report for Lichfield District Council 2021/22				√				
Auditor's Annual Report for Lichfield District Council 2021/22							√	

**AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2022/23**

Audit Plan (including Planned Audit Fee 2022/23)							√	
Informing the Audit Risk Assessment - Lichfield District Council							√	
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2023							√	
Private meeting with the Internal and External Auditors		√			√		√	

This page is intentionally left blank