

Audit committees:

practical guidance for
local authorities and police

2022 edition

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The police audit committee member

2022 edition

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 \ www.cipfa.org

© October 2022 CIPFA

ISBN for this publication: 978 1 84508 5 667

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

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Acknowledgements

A sincere thanks to all those who have provided comments and suggestions on this publication and the associated Position Statement.

- **Members of the Department for Levelling Up, Housing and Communities (DLUHC) working group:**
Alan Finch (Local Government Association), Andrew Chapell (Public Sector Audit Appointments), Mike Newbury (National Audit Office) and DLUHC and Home Office representatives.
- **Members of CIPFA's Police Governance, Audit, Risk and Assurance (GARA) group and Governance and Assurance Forum:**
Rob Winter (co-chair of GARA) and Laura Williams (Liverpool City Region).
- Jo Hendy (Welsh Local Government Association) and Chris Pyke (Cardiff Council).
- The CIPFA Public Financial Management Board.
- **CIPFA staff:**
Charlotte Radford, Hege Larsen, Sarah Sheen and Alison Bonathan.

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

Thank you for providing your insights on the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.

Diana Melville

Governance Advisor, CIPFA

Introduction to the new guidance

As a member of your audit committee for the police and crime commissioner (PCC) and chief constable, you play an important role in the good governance of local policing. The audit committee contributes to its overall success by examining how its arrangements for decision making, consideration of risk and operations work. The committee has a unique view, one that is non-political, supporting both the PCC and chief constable. It examines the 'engine' of the Office of the Police and Crime Commissioner (OPCC) and the force – how things get done. Most importantly, it shines a light on areas where things might be missed or need to adapt or improve.

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

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

This section of CIPFA's guidance is for members of a police audit committee. It will support members in understanding the purpose of the committee, its functions, and their responsibilities as members of the committee. It will link to other sections of CIPFA's guidance, which will provide additional resources.

FURTHER SECTIONS OF CIPFA'S GUIDANCE

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

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

There are several appendices available, including example terms of reference, improvement tools and a knowledge and skills framework.

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The purpose of audit committees

Purpose of the audit committee

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

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

Impact

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

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

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HOW THE AUDIT COMMITTEE SUPPORTS OVERALL GOVERNANCE WITHIN THE FORCE AND OPCC

The overall aim of good governance is to align the force and OPCC processes and structures towards the attainment of sustainable outcomes. In practice, this means ensuring that:

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

Governance for the sector is defined in **Delivering Good Governance in Local Government: Framework** (CIPFA/Solace, 2016) as follows:

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

Good governance is ultimately the responsibility of the PCC and chief constable. In policing, the PCC and the chief constable are corporations sole and have separate responsibilities for governance. In addition, those with leadership roles and statutory responsibilities in the OPCC and force, including the chief executive, the chief financial officer (CFO) and the monitoring officer, have a role. Putting good governance into practice requires the PCC, chief constable and senior staff to play their parts.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In policing, the audit committee must be strictly advisory and cannot be delegated any decision-making roles or governance responsibilities. The **Revised Financial Management Code of Practice for the Police Forces of England and Wales** (FMCP) (Home Office, 2018) recommends there is a joint independent audit committee (JIAC) to support both the PCC and chief constable. Where a PCC takes on the governance of a fire and rescue authority, it is a matter for local determination whether this is a combined committee with the PCC and chief constable or a separate committee.

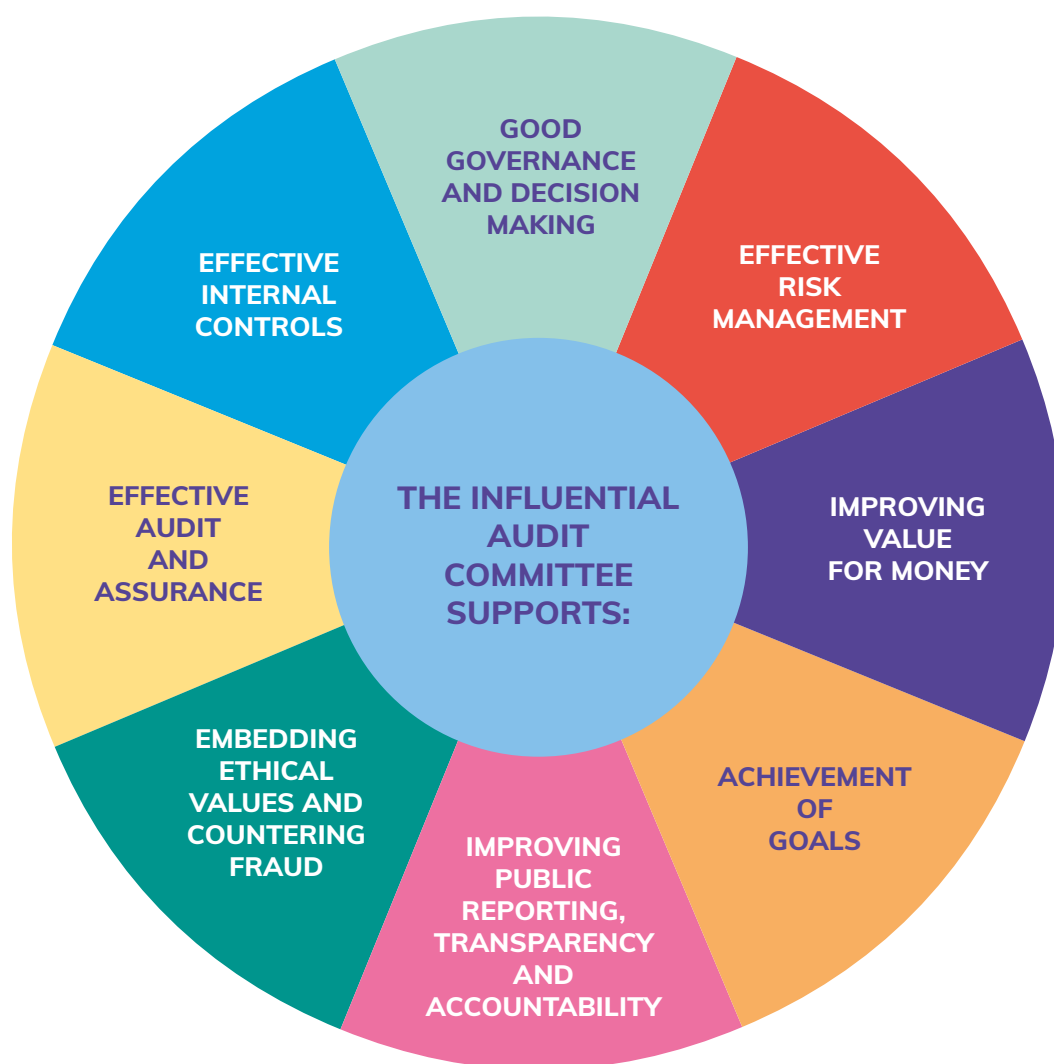
As a key component supporting governance arrangements, the audit committee has the potential to be a valuable resource. Where it operates effectively, an audit committee adds value by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need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

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

- Aiding the achievement of the PCC's and chief constable's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.
- Promoting the principles of good governance and how they are applied during decision making.
- Raising awareness of the need for sound internal control and contributing to the development of an effective control environment.
- Supporting arrangements to govern risk and for effective arrangements to manage risks.
- Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.
- Reinforcing the objectivity, importance and independence of internal and external audit and supporting the effectiveness of the audit functions.
- Supporting the development of robust arrangements for ensuring value for money.
- Helping the OPCC and force to implement the values of ethical governance, including effective arrangements for countering the risks of fraud and corruption.
- Promoting measures to improve transparency, accountability and effective public reporting to stakeholders and the local community.

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

Figure 1: The influential audit committee



CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards, providing a dedicated resource that is knowledgeable and effective.

The core functions of an audit committee

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and the specific legislative and professional standards requirements for policing and local government generally.

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

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

Maintenance of governance, risk, and control arrangements

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

Financial and governance reporting

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

Establishing appropriate and effective arrangements for audit and assurance

Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.

In relation to the authority's internal audit functions:

- oversee its independence, objectivity, performance, and conformance to professional standards
- support effective arrangements for internal audit
- promote the effective use of internal audit within the assurance framework.

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

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

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

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

GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

Good governance

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

To provide a meaningful review of the AGS, audit committee members should be able to draw on their knowledge of the governance arrangements and on assurances they have received during the year. The audit committee should undertake the following activities to discharge their responsibilities:

- Review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted).
- Ensure that a framework of assurance underpins the AGS (see **Assurance and audit** for more details on assurance planning).
- Over the course of the year, receive reports and assurances on the application of the governance arrangements in practice.
- Review the governance arrangements being put in place for major developments, such as the establishment of a collaborative arrangement.
- Monitor implementation of action plans or recommendations to improve governance arrangements.

- Consider how the force and OPCC apply governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee can promote the implementation of good governance to make things better in the future, not just review what happened in the past. For example, the committee may make recommendations for action to strengthen arrangements.

Further details on the AGS and the committee's role in reviewing it are included in [Accountability and public reporting](#).

Ethical framework

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

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

With its core role in supporting good governance, support for the ethical framework of the force and OPCC is also important for the audit committee. The PCC and chief constable have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the force and OPCC can show the integrity of all their actions and have mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements for achieving this.

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

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

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

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

An ethics committee will have responsibility for ethics and providing advice on ethics in policing to support the PCC and chief constable. This is a separate role from that of the audit committee, and CIPFA would not recommend this is brought within its terms of reference.

Risk management

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance the risk management arrangements provide when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk. The audit committee should always bear in mind the operational responsibilities of the chief constable, focusing on strategic and business risk matters rather than policing operations.

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

- 1** Assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements, and the ownership of and accountability for risks. Specifically, this includes:
 - overseeing the force's and OPCC's risk management policy and strategy and their implementation in practice
 - overseeing the integration of risk management into the force's and OPCC's governance and decision-making processes
 - ensuring the AGS is an adequate reflection of the risk environment.
- 2** Keeping up to date with the risk profile and the effectiveness of risk management actions by:
 - reviewing arrangements to co-ordinate and lead risk management (an example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency across the force and OPCC)
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks, major operational risks or major project risks and seeking assurance that these risks are managed effectively and owned appropriately (the committee should avoid duplicating risk monitoring undertaken by operational groups)
 - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
 - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- 3** Monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
 - overseeing any evaluation or assessment of the force's and OPCC's arrangements, such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation, assurance and audit reports on risk management and monitoring progress on improvement plans.

Acting as a risk committee

Local government bodies do not usually establish a dedicated committee with responsibility for risk management. Instead, other management groups are likely to play a role in the oversight of individual risks and the adequacy of the risk response. The leadership team, including the PCC and chief constable, will take the lead in establishing their risk appetite. The audit committee should understand the roles played by others to avoid duplication and confusion with its own role.

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

These functions could include:

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

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

Internal controls

The PCC, chief constable and senior staff are responsible for putting in place appropriate internal control arrangements. The aims of internal controls are to:

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

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

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

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

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

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

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

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

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

Value for money and best value arrangements

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

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

When planning the audit committee's work in relation to value for money, it should be mindful of how performance is monitored and managed. The audit committee will first focus on the overall arrangements that are put in place to achieve value for money. They will receive assurances from internal audit or from other sources of assurance on how effectively those arrangements work in practice. As a result of the audit committee's work, areas of concern about value for money may be identified and recommendations for further action or investigation made.

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

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

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

Countering fraud and corruption

The PCC and chief constable have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. If money is misdirected or assets lost to fraud, it means that limited budgets are less able to meet service demands and

fulfil their objectives. When any police body experiences a significant fraud or case of corruption, it damages public perception of policing and undermines public trust. Effective counter fraud and anti-corruption arrangements also link to the ethical standards for staff and officers that the public expects.

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

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

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

The CIPFA guidance on the AGS recommends that the adequacy of counter fraud arrangements is evaluated and reported in the AGS using the counter fraud code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice.

Arrangements for partnerships and collaborations

Police bodies commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements and a range of service delivery arrangements with community groups or social enterprises. PCCs can also take on responsibility for fire and rescue governance where a local case is made.

Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is particularly important, as accountability for performance and stewardship of the public funds involved remains with the PCC or chief constable. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider assurances on whether the partnership or collaborative arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek assurance that there are appropriate arrangements to identify and manage risks, ensure good governance, and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to

maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

For a new partnership or collaboration, the audit committee may wish to receive assurance over governance matters at the project stage. When reviewing the proposed structure, the committee should consider whether the OPCC or force has in place the necessary expertise, advice and training to take on new governance roles.

It is also important that the committee clarifies its own responsibilities in relation to the governance arrangements of the new service delivery organisation. Will they act as the audit committee for the new structure, for instance? Where a PCC takes on governance of a fire and rescue authority, it is a matter for local determination whether this is a combined body with the PCC and chief constable or a separate body.

The audit committee should consider assurances that underpin the AGS to make sure that partnerships are adequately covered. Where a partner organisation (such as a shared service entity) does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body to support the CFO.

ACCOUNTABILITY AND PUBLIC REPORTING

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

Financial reporting

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

The primary users of financial statements are the recipients of the policing services provided, together with the providers of the resources required to deliver those services. Financial statements are produced for the PCC and chief constable together with a consolidated set.

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

Key statements in annual accounts

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

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

The role of the audit committee is to review the financial statements prior to approval by the PCC or chief constable. The statements are the responsibility of all those charged with governance, but the audit committee assists by providing a more detailed review.

Accounts preparation

The preparation of the statutory statements of accounts is the responsibility of the CFO at the OPCC and the force. The deadline for the publication of the statements is set out in regulations by the English and Welsh governments. Recently, achieving these deadlines has been adversely impacted by the COVID-19 pandemic and delays in the completion of audits. Monitoring the status of both completion of the statements and liaison with the auditors before publication will be important for the audit committee. The audit committee will want assurance that the finance team can deliver a set of financial statements of appropriate quality in accordance with the statutory deadlines. Factors they will wish the finance team to highlight to them include:

- significant changes in accounting policies and their implications
- significant judgements made on material transactions
- changes such as the establishment of collaborations impacting on accounting treatment
- capacity and capability within the finance function to meet quality standards and deadlines
- whether there have been previous problems with the quality of the financial statements – for example, issues and recommendations from the previous year's audit
- issues arising from any internal assurance or internal audit reviews and actions taken
- any changes to the external audit requirements that could have implications for the preparation of the statements – for example, the drive to improve audit quality has included increased professional scepticism.

Reviewing the statutory statements of accounts

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

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

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

Understanding Local Authority Financial Statements (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful.

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

Annual governance statement

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

While the committee will see other agenda items that describe the governance arrangements that have been established – notably updates to the local code of governance – the AGS is all about evaluation. It is an assessment of how good those arrangements are in practice, leading to an

opinion on whether they are fit for purpose or not. Where there are areas for improvement, these should be identified and an appropriate action plan established.

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

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

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

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

ASSURANCE AND AUDIT

Assurance frameworks and assurance planning

The term 'assurance framework' is used to describe the various means through which the PCC, chief constable and senior staff can have confidence that the policies and procedures they have approved are being implemented in practice and operating as intended. It is their responsibility to put this framework in place.

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

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

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

Occasionally, there might be reference to the 'fourth line', referring to assurance that comes from outside the force and OPCC, such as from external auditors or His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS).

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

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

- Clarity on what assurance is required.
- Clear allocation of responsibility for providing assurance.
- Avoiding duplication, bearing in mind the differing objectives of assurance activities.
- Improving the efficiency and cost effectiveness of assurance.
- Obtaining assurance of appropriate rigour and independence across a range of assurance providers.

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

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

Supporting and making best use of audit

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

External audit

The PCC and the chief constable are "those charged with governance". This is of particular importance in relation to external audit, as external auditors are required by auditing standards to report to "those charged with governance". While the audit committee is the representative body for much of the interface with the external auditors, it is important to remember that the governance responsibility lies with the PCC and chief constable, and the committee's role is to advise and support them on interactions with external audit.

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

Appointment

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

The PCC is responsible for the appointment of the auditor for the financial statements of the chief constable and PCC.

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

In England, where the PCC has opted in, Public Sector Audit Appointments (PSAA) appoints the auditor following consultation with the PCC. 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 to the PCC. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

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

- 1** To provide assurance that the external auditor team maintains independence following its appointment.
- 2** To receive and consider the work of external audit.
- 3** To support the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process.

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

The audit committee should seek information from the external auditor on policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England), or from audit quality reviews by the Financial Reporting Council (FRC) or the Institute of Chartered Accountants in England and Wales (ICAEW). Regarding non-audit services, audit committees should monitor the approval of non-audit work and, in England, consider the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

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

While the Codes of Audit Practice in England and Wales will specify exact outputs, the reports from the external auditors are likely to include the following:

- A plan – including approach, risks, team, timetables and outputs.

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

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

Supporting quality and effectiveness

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

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

Reports from inspectorates or other regulatory bodies

In addition to audit reports, the force will be inspected by HMICFRS (HMIC in Wales). Other regulatory bodies such as the Information Commissioner's Office (ICO) may also review and inspect arrangements. Where inspectorates are focused on a force's operational matters, the committee's role may be limited, but all external assessments and recommendations provide assurance on the robustness of governance, risk and controls. It is therefore important that the committee is aware of the overall conclusions. Where issues are highlighted by inspections within the remit of the committee, it may play a more active role – for example, reviewing the implementation of an improvement plan. The committee will also want to consider how the work of these assurance providers are taken into account in the work of external audit or internal audit.

Internal audit

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

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

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

The activities that underpin these three objectives are below.

Oversee independence, objectivity, performance and professionalism

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

- review or approve the following:
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit (referred to in the PSIAS as 'chief audit executive') or the award of a contract for internal audit services
- make enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations on internal audit
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the head of internal audit's annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with the PSIAS and the Local Government Application Note (LGAN)
 - the results of the quality assurance and improvement programme (QAIP), including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor
- receive the report on the external assessment of internal audit (at least once every five years), including its overall conclusion and any recommendations. The committee should monitor the implementation of the improvement plan.

The head of internal audit, also known as the chief audit executive, must have unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as one of the sponsors for the external assessment, which forms part of the QAIP, at least once every five years.

Support effective arrangements for internal audit

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

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

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

While the designated head of internal audit can be expected to be responsible for the internal audit activity, the audit committee plays an important role in supporting the OPCC's and force's attitude to and understanding of internal audit. The **CIPFA Statement on the Role of the Head of Internal Audit** (2019) sets out the conditions that can make internal audit effective. It is relevant for audit committee members as well as the head of internal audit.

The following activities form a core part of this:

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

Promote the effective use of internal audit within the assurance framework

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

- recommending for approval (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the PCC or chief constable
- escalating internal audit recommendations where further action is needed
- bearing in mind internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control when considering the AGS. To get the best out of internal audit, the audit committee needs understanding of and support for effective risk management and wider assurance arrangements.

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

ENSURING THE FOCUS OF THE AUDIT COMMITTEE

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

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

Possible wider functions of an audit committee

In addition to the core functions of the committee defined in the CIPFA Position Statement, there are some wider functions that it may be necessary or appropriate for the committee to take on.

TREASURY MANAGEMENT

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

Notes (CIPFA, 2021) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not specify this to be an audit committee role, and a different committee may be nominated instead. CIPFA is aware, however, that many PCCs have nominated the audit committee, and it is therefore appropriate to consider this activity as part of this guidance.

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

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

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

Treasury management is a specialist area, so it is likely that committee members will require training, guidance and support when undertaking scrutiny.

SUPPORTING CORPORATE IMPROVEMENT PROGRAMMES

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

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS, THE PCC OR CHIEF CONSTABLE

Occasionally, the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from the PCC or chief constable/deputy chief constable or from one of the statutory officers. In scoping the terms of reference for a review, the committee should ensure the matter relates to governance, risk or control. Examples of where it may be helpful for the audit committee to assist could include:

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

In each case, the aim of the committee should be to make recommendations in line with its role as set out in the Position Statement: advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place.

Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

Independence and accountability

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

Independent and effective model

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

The committee should:

- be directly accountable to the PCC and chief constable
- 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 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.

Engagement and outputs

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

To discharge its responsibilities effectively, the committee should:

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

CIPFA Position Statement 2022

STRUCTURE AND INDEPENDENCE

Committee size

Police audit committees should comprise between three and five members. This is set out in the Home Office *Financial Management Code of Practice for the Police Forces of England and Wales*.

Reporting lines

The audit committee is an advisory committee on behalf the PCC and chief constable. As corporations sole, they are charged with governance. As a result, the committee should report to them.

Dedicated focus

The Home Office *Financial Management Code of Practice for the Police Forces of England and Wales* requires the establishment of the committee, which can be a joint committee supporting both the PCC and chief constable. Often the committee is given the title of joint independent audit committee (JIAC).

Decision-making powers and delegations

As the audit committee is advisory, it cannot be delegated decision-making powers.

The committee should be able to make recommendations to the PCC and chief constable. The committee can also make recommendations to the leadership team and service managers – for example, in response to issues raised by auditors.

Rights of access to documents and requesting attendance at committee

The audit committee can request information relevant to its role and agenda, but its rights of access are not set down in the FMCP. It is good practice to agree on a protocol, so there is clarity for all parties. Generally, local government bodies such as policing operate on a principle of openness and transparency, so there should not be a difficulty in providing relevant information. At all times, the authority will need to have regard for maintaining confidentiality of personal or commercially sensitive data in accordance with guidance. The force's operational information would not be suitable to share.

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

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

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

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Supporting the audit committee

The committee will receive secretariat support. It will also receive guidance on the proper conduct of the meeting under the governance arrangements of the PCC and force.

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

Frequency of meetings

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

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

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

Transparency

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

Meetings and interaction outside scheduled meetings

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

It is likely that some information will be shared with committee members outside scheduled meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with the external auditor and head of internal audit

It is standard practice for the external auditors and head of internal audit to have direct access to the audit committee. This helps to reinforce the independence of the auditors, helping them to

maintain their professional standards. It also reinforces the independence of the audit committee. A private meeting provides a safe space for discussions and questions. Even if the auditor has no concerns, the meeting provides additional assurance of that.

Suggested questions to ask at a meeting include the following:

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

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

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

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

Key relationships

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

- The chief executive of the PCC and the deputy chief constable for the AGS and governance-related issues.
- The risk management officer for discussions around risk management.
- The lead on counter fraud arrangements for agenda items on fraud risks and counter fraud activity.
- Service senior managers for audit, risk or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters).
- Ethics committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

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

ACCOUNTABILITY

To those charged with governance

The audit committee should be held to account regularly by those charged with governance – the PCC and chief constable. Accountability should cover:

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

The audit committee annual report

The committee should prepare an annual report that provides assurance to the PCC and chief constable that it fulfils its purpose and can demonstrate its impact. This is a key output of the committee, providing assurance to those charged with governance.

The report should be publicly available, supporting the PCC's accountability to wider stakeholders, including the public.

Suggested content for the report is set out below.

Alignment of the committee to recommended practice

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

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

The committee should consider how it can improve understanding of its work and raise its profile. By improving understanding and engagement, the influence of the committee is likely to grow.

CIPFA has produced a set of frequently asked questions about the work of the committee that helps communicate its role and the value it brings.

Supporting accountability to the public and stakeholders

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

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

Supporting internal accountabilities

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

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

Membership and effectiveness of the audit committee

The membership of the committee is an important aspect of effectiveness. Selecting members with the required knowledge, skills and expertise is essential, along with ongoing support.

Audit committee membership

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

Characteristics of audit committee membership:

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

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

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

Impact

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

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

CIPFA Position Statement 2022

COMMITTEE MEMBERSHIP

Independence

The Home Office code states that members should be independent of the PCC and the force. Independent members bring real value to the committee with relevant knowledge and expertise. Care is needed to ensure that the arrangement works well, ensuring that the member receives adequate induction and ongoing support to provide the context for their work and to build working relationships.

The role of the co-opted independent member

The audit committees of the PCC and the force must remain advisory. They cannot be delegated any decision-making responsibilities. As a result, the role of the member is to provide advice and support, drawing on their knowledge and expertise.

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

The Home Office code does not specify the term of the audit committee member. A suggested term of four years, with the option to extend for a second term, would be reasonable. Extension would be subject to satisfactory performance.

Appointment of the chair

The chair of the committee may be advertised directly or appointed from the existing committee members. This allows the PCC to specify requirements of the chair during recruitment. In all cases, it is recommended that the characteristics of an effective chair are considered. These include:

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

The tenure of the audit committee chair remains a matter for the PCC and the force. When making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective. CIPFA would suggest a maximum tenure of two appointment terms.

Remuneration

It is usual practice to provide some form of payment to the committee members and to pay expenses for attending meetings. The allowance recognises the value and time contributed by the member. An additional sum for the committee chair would be appropriate.

Knowledge and experience

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

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

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

Training and development

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

New members may have technical knowledge and experience, but they will still need to understand the policing context with which they may not be familiar. Support should also be provided to integrate them into the committee and to familiarise them with the PCC's and force's structure and processes.

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

DEVELOPING EFFECTIVENESS

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

Assessing the effectiveness of the committee should consider the following:

- An assessment of whether the committee is operating in accordance with the practices recommended in this guidance and complies with the Home Office code.
- How the committee has fulfilled its terms of reference, including the core functions of the committee.
- The operation of the committee, including the support and training provided and how members have developed their knowledge and experience.

- The committee's effectiveness in terms of impact on the quality of governance, risk management and internal control, together with satisfactory audit arrangements.
- Feedback from those interacting with the committee.

Feedback to committee members

It is normal practice in other sectors for the chair of the audit committee to provide feedback to individual members. Adopting this practice for the audit committee will support members and further development of the committee. Suggested areas for discussion include:

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

Appendices to support evaluation

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

The audit committee should report on its effectiveness in its annual report, and the annual report should be timed to support the AGS. For more details on the annual report, see [Independence and accountability](#).

Problem solving

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

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

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

APPENDIX A

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	<u>Cities and Local Government Devolution Act 2016.</u> <u>Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017.</u>	<u>Local Government (Wales) Measure 2011</u> as amended by the <u>Local Government (Democracy) (Wales) Act 2013.</u> <u>Local Government and Elections (Wales) Act 2021.</u>	<u>Financial Management Code of Practice for the Police Forces of England and Wales (FMCP)</u> (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)
Specified functions of the audit committee	Review and scrutinise the authority's financial affairs. Review and assess the authority's risk management, internal control and corporate governance arrangements. Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions. Make reports and recommendations to the combined authority.	Review and scrutinise the authority's financial affairs. Make reports and recommendations in relation to the authority's financial affairs. Review and assess the risk management, internal control, performance assessment and corporate governance arrangements of the authority. Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements. Review and assess the authority's ability to handle complaints effectively. Make reports and recommendations on the authority's ability to handle complaints effectively. Oversee the authority's internal and external audit arrangements. Review the financial statements prepared by the authority.	Consider the internal and external audit reports of both the PCC and the chief constable. Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices.	No guidance
Responsibilities of the audit committee in relation to external audit	No guidance	Oversee external audit arrangements.	Review external audit reports.	No guidance

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

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

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

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

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

Financial reporting deadlines

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

Suggested terms of reference – local authority

INTRODUCTION

This appendix contains suggested terms of reference for local authorities.

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

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

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

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

Statement of purpose

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

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

Governance, risk and control

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

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

Financial and governance reporting

Governance reporting

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

Financial reporting

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

Arrangements for audit and assurance

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

External audit

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

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

Internal audit

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

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

Accountability arrangements

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

Suggested terms of reference – police

INTRODUCTION

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

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

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

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

Governance

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

Statement of purpose

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

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

Governance, risk and control

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

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

Financial and governance reporting

Governance reporting

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

Financial reporting

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

Arrangements for audit and assurance

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

External audit

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

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

Internal audit

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

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

Accountability arrangements

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

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	- An overview of the authority's governance structures and decision-making processes. - Knowledge of the organisational objectives and major functions of the authority.	This knowledge will be core to most of the audit committee's activities, including the AGS review, internal and external audit reports and risk registers.
Audit committee role and functions	- An understanding of the audit committee's role and place within the governance structures. - Familiarity with the committee's terms of reference and accountability arrangements. - Knowledge of the purpose and role of the audit committee.	- This knowledge will enable the audit committee to prioritise its work to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others. - It will help the committee undertake a self-assessment and prepare its annual report.
Governance	- Knowledge of the seven principles as outlined in <u>Delivering Good Governance in Local Government: Framework</u> (CIPFA/Solace, 2016). - The requirements of the AGS. - How the principles of governance are implemented locally as set out in the local code of governance.	- The committee will review the local code of governance and consider how governance arrangements align to the principles in the Framework. - The committee will plan the assurances it is to receive to adequately support the AGS. - The committee will review the AGS and consider how the authority is meeting the principles of good governance. - The committee will receive audit reports and information on risks relating to governance.

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit	• An awareness of the key principles of the PSIAS and the LGAN. • Knowledge of the arrangements for delivery of the internal audit service in the authority and the charter. • How the role of the head of internal audit is fulfilled. • Details of the most recent external assessment and level of conformance with the standards. • Internal audit's strategy, plan and most recent annual opinion.	• The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. • The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. • The committee will also receive the annual report, including an opinion and information on conformance with professional standards. • In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed. • The audit committee chair is likely to be interviewed as part of the external quality assessment, and the committee will receive the outcome of the assessment and action plan.
Financial management and financial reporting	• Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. • An understanding of good financial management practice as set out in the CIPFA <u>Financial Management Code</u> (FM Code) and the level of compliance with it. • Knowledge of how the organisation meets the requirements of the role of the CFO as required by <u>The Role of the Chief Financial Officer in Local Government</u> (CIPFA, 2016) and <u>The Role of CFOs in Policing</u> (2021). • An overview of the principal financial risks the authority faces.	• Reviewing the financial statements prior to publication, asking questions. • Receiving the external audit report and opinion on the financial audit. • Reviewing both external and internal audit recommendations relating to financial management and controls. • The audit committee should consider compliance with the FM Code and the role of the CFO and how this is met when reviewing the AGS.
External audit	• Knowledge of the role and functions of the external auditor and who currently undertakes this role. • Knowledge of the key reports and assurances that external audit will provide. • Familiarity with the auditor's most recent plan and the opinion reports. • Knowledge about arrangements for the appointment of auditors and quality management undertaken.	• The audit committee will meet with the external auditor regularly and receive their reports and opinions. • Monitoring external audit recommendations and maximising the benefit from the audit process. • The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service.

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management	- Understanding of the principles of risk management, including how it supports good governance and decision making. - Knowledge of the risk management policy and strategy of the organisation. - Understanding of risk governance arrangements, including the role of members and of the audit committee. - Knowledge of the current risk maturity of the organisation and any key areas of improvement.	- In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements. - Awareness of the major risks the authority faces is necessary to support the review of several audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee. - The committee should also review reports and action plans to develop the application of risk management practice.
Counter fraud	- An understanding of the main areas of fraud and corruption risk that the organisation is exposed to. - Knowledge of the principles of good fraud risk management practice in accordance with the <u>Code of Practice on Managing the Risk of Fraud and Corruption</u> (CIPFA, 2014). - Knowledge of the organisation's arrangements for tackling fraud.	- Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy. - An assessment of arrangements should support the AGS, and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment.
Values of good governance	- Knowledge of the Seven Principles of Public Life. - Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff (eg code of conduct). - Knowledge of the whistleblowing arrangements in the authority.	- The audit committee member will draw on this knowledge when reviewing governance issues and the AGS. - Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported.
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	<u>Effective Scrutiny of Treasury Management</u> is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: - regulatory requirements - treasury risks - the organisation's treasury management strategy - the organisation's policies and procedures in relation to treasury management. See also <u>Treasure your assets</u> (Centre for Governance and Scrutiny, 2017).	Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

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

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

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

CORE SKILLS

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

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

Problem-solving difficulties with the audit committee

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

Areas of difficulty	Possible causes	Possible improvement options
Lack of experience and continuity of knowledge among audit committee members.	Where turnover of membership is very frequent, it will be difficult for the committee to build up experience.	Enhanced level of support and training to members will be required. To enhance continuity, the authority should consider recruitment of independent members.
Audit committee members do not feel confident in their knowledge of particular areas.	Lack of training and support.	Enhanced level of support and training to members.
Independent members lack knowledge of the organisation and lack connections with key managers.	- Poor induction. - Limited opportunities to engage with the organisation outside of formal meetings.	- Improve induction. - Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding.
Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion.	- Lack of experience or skill in managing meetings by the chair. - Committee members are unsure about their role. - Poor support from the committee secretary.	- Training and support. - Develop a mentoring/coaching programme. - Chair seeks feedback from meeting participants. - Consider skills and experience in the selection of the chair. - Provide training and guidance to committee members on their role. - Improve committee support.
The audit committee spends too much time on minor details rather than underlying arrangements of governance, risk and control.	- Agenda management fails to prioritise key areas. - The chair does not intervene to keep the focus at an appropriate level.	- Review the process of agenda development. - Review the terms of reference and provide training. - The chair seeks feedback from meeting participants. - Provide the chair with committee management training.

Areas of difficulty	Possible causes	Possible improvement options
The committee lacks focus, and members struggle to gain an overall understanding of their remit.	- Committee members have a range of objectives rather than focusing on governance, risk, control and audit matters. - The committee is too large or lacks continuity because of regular attendance by substitutes. - Infrequent attendance by senior officers.	- Training and emphasis on the non-political and strategic focus of the committee. - Reform of the committee structure to reduce membership and remove use of substitutes.
Senior officers do not understand the work of the committee and are not sighted on its output.	- The audit committee fails to engage with other committees in the authority. - Attendance is often limited to the CFO and the head of internal audit.	Expand attendance at audit committee meetings – for example, invite heads of service when major risks or control issues are being discussed – and share the CIPFA guidance (FAQs) more widely.
Elected representatives not directly involved with the committee have little understanding of its work and do not see its output.	- Committee recommendations are not directed to appropriate member bodies. - Reporting arrangements are not effective. - Wider induction arrangements do not cover the audit committee.	- Invite newly elected members to attend audit committee meetings. - Review reporting and accountability arrangements. - Prepare an annual report that sets out how the committee has fulfilled its responsibilities. - Share the CIPFA guidance (FAQs).
Recommendations made by the audit committee are not actioned.	- A poor relationship between the committee and the executive or senior officers. - The audit committee's recommendations are not adequately aligned to organisational objectives.	- A senior officer provides internal facilitation to support improved relationships. - Improve knowledge and skills among audit committee members. - Ensure better engagement with appropriate managers or the executive at an earlier stage.
The audit committee fails to make recommendations or follow up on issues of concern.	- A weak or inexperienced chair. - Members are inexperienced or do not fully understand their role. - Poor briefing arrangements prior to meetings. - Committee reports fail to adequately identify the action required by the committee.	- Provide guidance and support. - Improve briefing to the chair prior to the meeting. - Ensure reports contain clear recommendations.
The audit committee strays beyond its terms of reference – for example, undertaking a scrutiny role.	- The terms of reference do not adequately scope the work of the committee. - Misunderstanding about the role of the committee. - Inadequate guidance from the committee secretary to the chair on its role.	Review the terms of reference and provide training and guidance.

Areas of difficulty	Possible causes	Possible improvement options
Political points of view interfere with the work of the audit committee.	• A lack of understanding about the role of the committee. • Difficulty separating the work of the committee from the wider politics of authority.	• Seek feedback from those interacting with the committee or external assessment. • Provide support or training for the chair. • Consider the role of independent members.
A breakdown in the relationship between committee members and the executive, PCC or chief constable/deputy chief constable, or with senior management.	• A lack of understanding about the role of the committee. • Differing perceptions on the value of the committee • Personality clashes.	• Review the terms of reference and provide training and guidance. • A senior officer provides internal facilitation to support improved relationships. • Seek an external assessment or facilitation. • Change the chair or membership if the constitution or opportunity arises.

Self-assessment of good practice

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

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

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

Audit committee purpose and governance

1	Does the authority have a dedicated audit committee that is not combined with other functions (eg standards, ethics, scrutiny)?	☐	☐	☐	☐	☐
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:					
compliance with the CIPFA Position Statement 2022	☐	☐	☐	☐	☐
results of the annual evaluation, development work undertaken and planned improvements	☐	☐	☐	☐	☐
how it has fulfilled its terms of reference and the key issues escalated in the year?	☐	☐	☐	☐	☐
Functions of the committee					
9 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?					
Governance arrangements	☐	☐	☐	☐	☐
Risk management arrangements	☐	☐	☐	☐	☐
Internal control arrangements, including: - financial management - value for money - ethics and standards - counter fraud and corruption	☐	☐	☐	☐	☐
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?					
• Separation from executive	☐	☐	☐	☐	☐
• A size that is not unwieldy and avoids use of substitutes	☐	☐	☐	☐	☐
• Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation	☐	☐	☐	☐	☐
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	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
24 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	☐	☐	☐	☐	☐
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?	☐	☐	☐	☐	☐
Subtotal score	☐	☐	☐	☐	☐
Total score					
Maximum possible score					200**

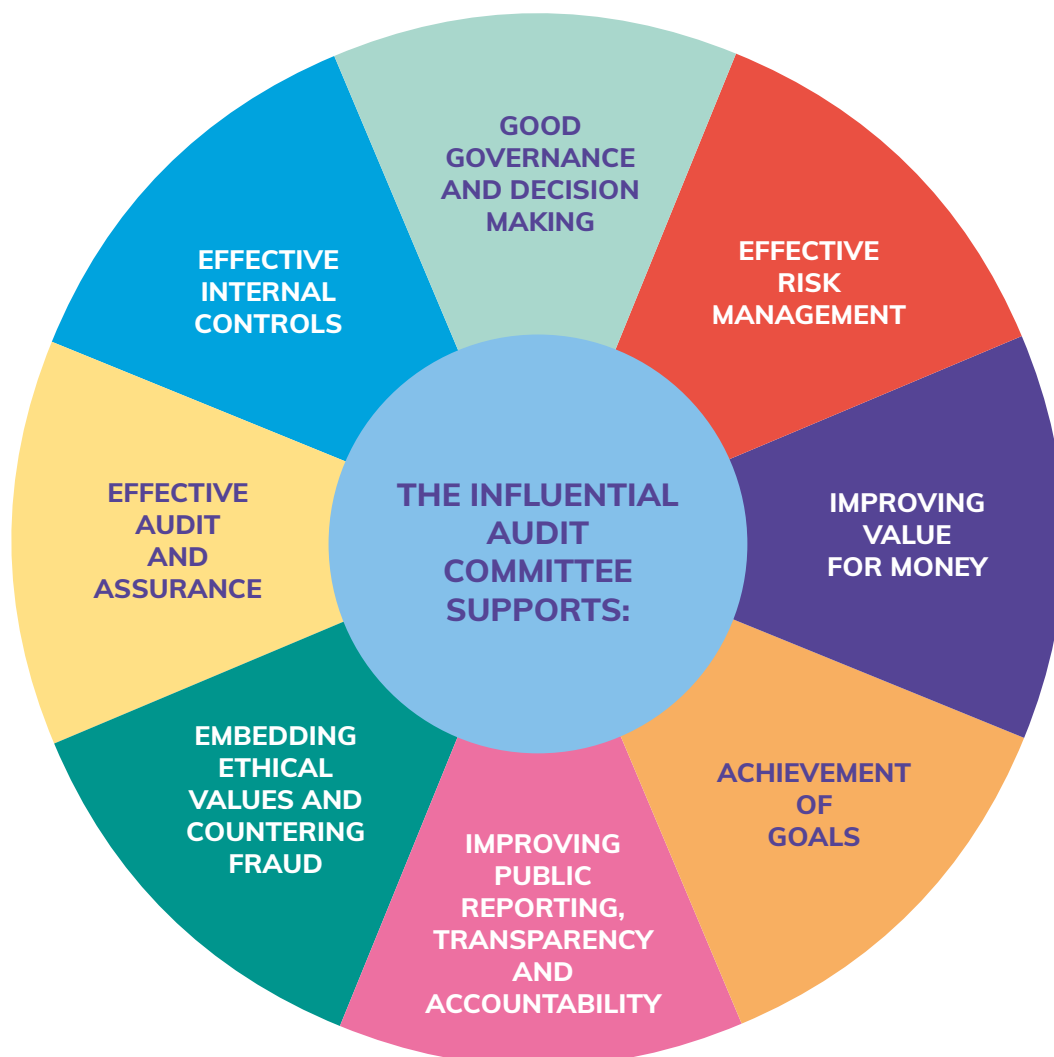
** 40 questions/sub-questions multiplied by five.

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.	- Supporting the development of a local code of governance. - Providing a robust review of the AGS and the assurances underpinning it. - Supporting reviews/audits of governance arrangements. - Participating in self-assessments of governance arrangements. - Working with partner audit committees to review governance arrangements in partnerships.	- Elected members, the leadership team and senior managers all share a good understanding of governance, including the key principles and local arrangements. - Local arrangements for governance have been clearly set out in an up-to-date local code. - The authority's scrutiny arrangements are forward looking and constructive. - Appropriate governance arrangements established for all collaborations and arm's-length arrangements. - The head of internal audit's annual opinion on governance is satisfactory (or similar wording).	
Contributing to the development of an effective control environment.	- Encouraging ownership of the internal control framework by appropriate managers. - Actively monitoring the implementation of recommendations from auditors. - Raising significant concerns over controls with appropriate senior managers.	- The head of internal audit's annual opinion over internal control is that arrangements are satisfactory. - Assessments against control frameworks such as CIPFA's FM Code have been completed and a high level of compliance identified. - Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement.	

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	- Reviewing risk management arrangements and their effectiveness, eg risk management maturity or benchmarking. - Monitoring improvements to risk management. - Reviewing accountability of risk owners for major/ strategic risks.	A robust process for managing risk is evidenced by independent assurance from internal audit or external review.	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	- Reviewing the adequacy of the leadership team's assurance framework. - Specifying the committee's assurance needs, identifying gaps or overlaps in assurance. - Seeking to streamline assurance gathering and reporting. - Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.	The authority's leadership team have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies.	
Supporting effective external audit, with a focus on high quality and timely audit work.	- Reviewing and supporting external audit arrangements with focus on independence and quality. - Providing good engagement on external audit plans and reports. - Supporting the implementation of audit recommendations.	- The quality of liaison between external audit and the authority is satisfactory. - The auditors deliver in accordance with their audit plan and any amendments are well explained. - An audit of high quality is delivered.	
Supporting the quality of the internal audit activity, in particular underpinning its organisational independence.	- Reviewing the audit charter and functional reporting arrangements. - Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements. - Actively supporting the quality assurance and improvement programme of internal audit.	- Internal audit that is in conformance with PSIAS and LGAN (as evidenced by the most recent external assessment and an annual self-assessment). - The head of internal audit and the organisation operate in accordance with the principles of the CIPFA <u>Statement on the Role of the Head of Internal Audit</u> (2019).	

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.	• Reviewing how the governance arrangements support the achievement of sustainable outcomes. • Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. • Reviewing the effectiveness of performance management arrangements.	• Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives. • The authority's arrangements to review and assess performance are satisfactory.	
Supporting the development of robust arrangements for ensuring value for money.	• Ensuring that assurance on value-for-money arrangements is included in the assurances received by the audit committee. • Considering how performance in value for money is evaluated as part of the AGS. • Following up issues raised by external audit in their value-for-money work.	• External audit's assessments of arrangements to support best value are satisfactory.	
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	• Reviewing arrangements against the standards set out in the <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (CIPFA, 2014). • Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. • Assessing the effectiveness of ethical governance arrangements for both staff and governors.	• Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements.	

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	- Working with key members/ the PCC and chief constable to improve their understanding of the AGS and their contribution to it. - Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of plain English. - Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency. - Publishing an annual report from the committee.	- The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality. - The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion. - The authority has published its financial statements and AGS in accordance with statutory guidelines. - The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements.	

OVERALL QUESTIONS TO CONSIDER

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

REPORTING RESULTS

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



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