

## **Governance Committee**

Wednesday, 2nd August 2023, 2.30 pm

Committee Room 1, Town Hall, Chorley and YouTube

### Agenda

#### **Apologies**

- |   |  |                   |
|---|--|-------------------|
| 1 | <b>Minutes of meeting Wednesday, 24 May 2023 of Governance Committee</b>   | (Pages 3 - 8)     |
| 2 | <b>Declarations of Any Interests</b><br><br>Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.<br><br>If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter. |                   |
| 3 | <b>External Audit Progress Report</b><br><br>To receive and consider the report of the External Auditor, Grant Thornton.   | (Pages 9 - 16)    |
| 4 | <b>External Audit VfM Report</b><br><br>To receive and consider the report of the External Auditor, Grant Thornton.  | (To Follow)       |
| 5 | <b>Treasury Management Outturn Report 2022/23</b><br><br>To receive and consider the report of the Director of Finance.  | (Pages 17 - 34)   |
| 6 | <b>CIPFA Audit Committees - Practical Guidance for Local Authorities and Police</b><br><br>To receive and consider the report of the Head of Audit and Risk.   | (Pages 35 - 124)  |
| 7 | <b>Chair of Governance Committee Response to External Audit Planning Enquiries</b><br><br>To receive and consider the report of the Head of Audit and Risk.  | (Pages 125 - 132) |

8	<b>Strategic Risk Review</b>	(Pages 133 - 160)
	To receive and consider the report of the Director of Change and Delivery.	
9	<b>RIPA Application Update</b>	
	The Monitoring Officer will present a verbal report at the meeting.	
10	<b>Work Programme</b>	(Pages 161 - 162)
	To receive and consider the work programme for the Committee.	
11	<b>Any urgent business previously agreed with the Chair</b>	

Chris Sinnott  
Chief Executive

Electronic agendas sent to Members of the Governance Committee Councillor Alan Platt (Chair), Councillor Mark Clifford (Vice-Chair) and Councillors Gordon France, Christine Heydon, Samantha Martin, Dedrah Moss, Jean Sherwood and Neville Whitham.

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**MINUTES OF GOVERNANCE COMMITTEE****MEETING DATE** Wednesday, 24 May 2023**MEMBERS PRESENT:** Councillor Alan Platt (Chair), Councillor Mark Clifford (Vice-Chair) and Councillors Dedrah Moss and Neville Whitham**OFFICERS:** Louise Mattinson (Director of Finance), Chris Moister (Director of Governance), Dawn Highton (Head of Audit and Risk), Jacqui Murray (Senior Auditor), Waddington (Principal Financial Accountant), Chris Walmsley and Coral Astbury (Democratic and Member Services Officer)**APOLOGIES:** Councillor Gordon France**OTHER MEMBERS:** Councillor Charlotte Fitch (Independent Person) and Peter Ripley (Independent Person)**1 Minutes of meeting Wednesday, 15 March 2023 of Governance Committee****Resolved: (Unanimously)**

The minutes of the last meeting held Wednesday, 15 March 2023 were agreed as a correct record for signing by the Chair.

**2 Declarations of Any Interests**

None.

**3 External Audit Annual Report 2021/22**

This item was withdrawn.

**4 External Audit Progress Report**

Georgia Jones of Grant Thornton PLC presented a report which provided an update on progress in delivering their responsibilities as the Council's External Auditor.

Members were advised that the External Auditors were aiming to have signed off the financial statements by November.

The External Auditor advised work was ongoing to certify the Authority's annual Housing Benefit Subsidy claim and they were expecting to complete this work by 31 May 2023.

The External Auditor gave an update on the proposed and actual fee's and explained there could be some additional fees charged for 2021/22 as the work on the value for money audit had not yet concluded.

**Resolved: (Unanimously)**

1. Committee approve the actual audit fee of £78,772 for 2021/22.
1. Committee approve the proposed audit fee of £75,684 for 2022/23.

**5 External Audit Plan 2022/23**

Georgia Jones of Grant Thornton PLC presented a report that provided an overview of the planned scope and timing of the statutory audit for the Year ending 31 March 2023.

The External Auditor explained that three risks had been identified as significant and these would be subject to a full scope audit.

**Resolved: (Unanimously)**

That the report be noted.

**6 Management Response to External Audit Planning Queries 2022/23**

The Director of Finance presented a report that provided the management responses provided to the planning enquiries made by the External Auditors, Grant Thornton, as part of their audit of the 2022/23 statutory accounts.

Members were advised the questions were asked every year and included general questions on significant events, assessments of policies and an assessment of how changes to legislation could impact the financial position of the authority.

**Resolved: (Unanimously)**

The committee review and approve the management responses to the auditor's enquiries.

**7 CIPFA Resilience Index 2021/22**

The committee considered a report of the Director of Finance that presented the latest CIPFA Resilience Index (2021/22) compared to the previous published indices.

The Principal Financial Accountant explained the index gave assurance of financial health and highlighted opportunities and weaknesses. It also shows the position of the authority in a comparative group of similar authorities.

Members noted the indicators continue to highlight the Council is in a strong position.

**Resolved: (Unanimously)**

Committee note the index and the continued strong position of the Council.

#### **8 Charities & Trust Funds Final Accounts 2022/23**

The Principal Financial Accountant presented a report of the Director of Finance that presented, for approval, the accounts for the year ended 31 March 2023 for the charities and trusts for which the Council is the sole trustee.

##### **Resolved: (Unanimously)**

That the accounts presented in Appendices A to E be approved.

#### **9 Internal Audit Effectiveness Review**

The Head of Audit and Risk presented a report that provided the results of the self-assessment carried out by Internal Audit against the requirement of the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).

The Head of Audit and Risk explained that a self-assessment needed to be undertaken annually so the service could demonstrate how it complies with PSIAS and assures members they can place reliance on the opinions given by Internal Audit. Of 135 aspects the service had confirmed compliance with 125 in full, five were non applicable and 1 partial performance which was included in the Annual Governance Statement. External assessment of the review would start in June.

##### **Resolved: (Unanimously)**

Committee notes the results of the self-assessment recently undertaken as part of the Governance Committee's consideration of the system of internal control.

#### **10 Internal Audit Annual Report and Opinion 2022-23**

The Head of Audit and Risk presented a report that summarised the work undertaken by the Internal Audit Service during 2022/2023 giving an opinion as required by the Public Sector Internal Audit Standards (PSIAS) on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

The report also gave the results of the Quality Assurance and Improvement programme.

The Head of Audit and Risk advised the authority had adopted a three line defence model and internal audit would test to ensure systems are operating as they should be, it was noted there had been a number of limited reports issued.

In response to a member enquiry, it was explained that the issues relating to GDPR were a mix of data retention and data handling. The Director of Governance explained there had been a series of findings and management actions agreed. Policies would be updated and aligned across both authorities and Service Leads would be asked why their staff had not completed their mandatory training as, the completion rate of 71% was not adequate.

##### **Resolved: (Unanimously)**

Committee note the report for the year ended 31st March 2023.

#### **11 RIPA Application Update**

The Director of Governance gave a verbal update and explained there was no applications to report.

#### **12 Governance Committee Work Programme 2023/24**

The work programme 2023/24 was noted.

#### **13 Any urgent business previously agreed with the Chair**

The Chair advised he had accepted two urgent items of business and they would be considered in order of acceptance.

#### **14 Closure of Bank of Scotland Account**

The Director of Finance presented a report that sought approval of the updated bank signatories and the subsequent closure of a dormant Bank of Scotland Bank Account.

The Director of Finance explained in the 2021/22 External Audit recommendations, it was requested that the Council improve its approach to reconciliation of bank accounts. A full review was undertaken, and it highlighted that as the Bank of Scotland account had been dormant for several years, it would be appropriate to close the account and transfer the funds to an active account.

#### **Resolved: (Unanimously)**

1. Committee approve the addition of signatories as follows: Louise Mattinson (Director of Finance) and Jean Waddington (Principal Financial Accountant)
2. Committee approve the subsequent closure of this dormant bank account.

#### **15 Draft Annual Governance Statement**

Members considered a report of the Director of Governance that sought to present the draft Annual Governance Statement (AGS) for 2022/23.

The Director of Governance advised the AGS was split into five sections and was based on the seven principles outlined within CIPFA and SOLACE frameworks.

Members noted the AGS made reference to a number of limited assurance Internal Audit reports issued this year and noted the table within the AGS that highlighted the areas for improvement, suggested improvements and progress made.

The Director of Governance explained the AGS was for the years 2022/23 and the document would be updated.

#### **Resolved: (Unanimously)**

Committee approve the Annual Governance Statement in draft form for inclusion with the draft statement of accounts.

Chair

Date

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# Chorley Borough Council Audit Progress Report

Year ending 31 March 2023

July 2023



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

## Your key Grant Thornton team members are:

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This paper provides the Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at July 2023

## Financial Statements Audit

We completed our initial planning for the 2022/23 audit in March and April 2023. We expect to receive your draft financial statements in August 2023.

In May, we have issued our detailed audit plan, setting out our proposed approach to the audit of the Authority's 2022/23 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2023.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously introduced secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

This was enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 was extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

Officers have advised us that the draft financial statements are likely to be available for audit in August. The deadline for the preparation of draft accounts for 22/23 is the end of May 2023 however the ongoing impact of the pandemic, the complexity of accounting requirements and capacity in the finance team mean that we have agreed with officers to commence the audit on a later timescale. This means we will not complete the audit by the target date of the end of September but will work with officers to complete the audit towards the end of November if possible.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. Our report has not met that deadline because of issues identified by Internal Audit which we have needed to complete additional work on.

We have issued our Auditor's Annual Report 2021/22 in July 2023.

# Progress at July 2023 (cont.)

## Other areas

### Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). DWP extended the deadline for reporting the findings of this work to 31 January 2023. There were a number of errors identified meaning additional work has been required. We liaised with the DWP and the certification work for the 2021/22 claim has now been completed. We issued our report to DWP in July 2023.

The certification work for the 2022/23 claim will commence from July 2023.

### Meetings

We met with Finance Officers as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We have also met with your Chief Executive to obtain and update on emerging issues and challenges for the Council.

We have also provided training to your finance team with a view to helping the audit progress smoothly this year. This included detail around the standard of audit evidence required. We continue to liaise with finance officers to try to ensure an efficient audit for 2022/23.

## Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers were invited to our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

# Audit Deliverables

2022/23 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report</p>	May 2023	Completed
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the November Audit Committee.</p>	November 2023	Not yet due
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	November 2023	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	November 2023	Not yet due

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

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Public Sector

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Local  
government



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Report of	Meeting	Date
Director (Finance) and Section 151 Officer	Governance Committee	Wednesday, 2 August 2023

**Treasury Management Outturn Report 2022/23**

Is this report confidential?	No
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Is this decision key?	No
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**Purpose of report**

- To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2023.

**Recommendation to Governance Committee**

- That the report be noted.

**Reasons for recommendations**

- Production of an Annual Report is a requirement under the Treasury Management Code of Practice.

**Other options considered and rejected**

- Not applicable

**Corporate priorities**

- The report relates to the following corporate priorities:

<b>Housing where residents can live well</b>	<b>A green and sustainable borough</b>
<b>An enterprising economy with vibrant local centres in urban and rural areas</b>	<b>Healthy, safe and engaged communities</b>

**Background to the report**

- This report advises on compliance with Prudential and Treasury Indicators in 2022/23. The return on investments for the year was 1.72%, which was higher than the previous year,

and above the benchmark of **1.22%**. Details of borrowing and investments as at 31 March 2023 are presented in the report.

7. Borrowings and investments as at 31 March 2023 are also presented, and our treasury advisors, Link Asset Services, have provided updated interest rate forecasts for 2023/24 and subsequent financial years.
8. The Treasury Strategy for 2022/23 to 2024/25 was approved by Council on 22 February 2022. The strategy included prudential and treasury indicators, the treasury management strategy, annual investment strategy (including the list of approved investment counterparties), and the annual Minimum Revenue Provision (MRP) Policy.
9. A mid-year review of Treasury Management activity was presented to Governance Committee on 23 November 2022. This reported that during the first half of 2022/23, average daily balances were lower than 2021/22, due to the phasing out of Covid Support Grants. The report also outlined that the levels of interest achievable on investments has increased from historical lows the previous year.
10. A glossary of technical terms used in this report is presented as Appendix J.

### **Capital Expenditure and Financing 2022/23**

11. The Council undertakes capital expenditure on long-term activities. These activities may either be:
  - financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
  - if sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

12. The total value of actual capital expenditure is one of the council's prudential indicators. The table below shows the actual capital expenditure for 2022/23.

<b>Table 1 – Capital Expenditure</b>	<b>2022/23 Estimate £'000</b>	<b>2022/23 Revised £'000</b>	<b>2022/23 Actual £'000</b>	<b>2022/23 Variance £'000</b>
A strong local economy	9,451	4,226	4,055	(171)
An ambitious council that does more to meet the needs of residents and the local area	1,570	1,278	851	(427)
Clean, safe and healthy homes and communities	12,724	9,168	7,772	(1,396)
Involving residents in improving their local area and equality of access for all	489	1,176	821	(355)
<b>Capital Expenditure Total</b>	<b>24,234</b>	<b>15,848</b>	<b>13,499</b>	<b>(2,349)</b>

13. In addition to the usual range of factors which can affect the timing of capital projects, the progression of the 2022/23 programme was affected by rising construction costs and interest rates impacting on business cases for a number of schemes, and the effect of global supply chain issues on IT projects in particular.
14. Additional analysis of the schemes included in the 2022/23 Capital Programme was presented to Executive Cabinet on 15 June 2023 in the report 'Capital Programme and Balance Sheet Monitoring'.

Financing of the capital expenditure is shown in the following table.

<b>Table 2 – Capital Financing 2022/23</b>	<b>2022/23 Estimate £'000</b>	<b>2022/23 Revised £'000</b>	<b>2022/23 Actual £'000</b>	<b>2022/23 Variance £'000</b>
Capital Expenditure (from Table 1 above)	24,234	15,848	13,499	(2,349)
Capital Receipts	(1,000)	0	(507)	(507)
Grants & Contributions	(6,129)	(8,243)	(7,507)	736
Revenue & Reserves	(1,795)	(1,511)	(850)	661
<b>NET FINANCING NEEDED FOR YEAR</b>	<b>15,310</b>	<b>6,094</b>	<b>4,635</b>	<b>(1,459)</b>

### **Capital Financing Requirement 2022/23**

15. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the unfinanced capital expenditure in 2022/23, plus the unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources.
16. Part of the Council's treasury activity is to address the funding requirement for this borrowing need. Depending on the capital expenditure programme, the Council's cash position is organised to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such

as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Council.

17. The CFR is not matched in full by external borrowing, so the Council is said to have under borrowed by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken, then the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.
18. The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets funded by borrowing are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can be borrowed and repaid, but this does not change the CFR.
19. The total CFR can also be reduced by:
  - the application of additional capital financing resources (such as unapplied capital receipts); or
  - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
20. The 2022/23 MRP Policy (as required by DLUHC Guidance) was approved by Council as part of the Treasury Strategy 2022/23 to 2024/25 on 22 February 2022.
21. The Council's CFR for the year is shown in Table 3 below and represents a key prudential indicator. It includes financing by means of a finance lease for leisure related capital investment, which increases the Council's borrowing need.

<b>Table 3 – Capital Financing Requirement</b>	<b>2022/23 Estimate £'000</b>	<b>2022/23 Revised £'000</b>	<b>2022/23 Actual £'000</b>	<b>2022/23 Variance £'000</b>
Opening CFR	109,344	103,028	98,349	(4,679)
Net financing need for the year (Table 2)	15,310	6,094	4,635	(1,459)
Additional post outturn relating to Tatton costs presented at Council July 2023	0	0	644	644
Less MRP	(1,641)	(1,296)	(1,293)	3
<b>Closing CFR</b>	<b>123,013</b>	<b>107,826</b>	<b>102,335</b>	<b>(5,491)</b>

See also Note 35 Capital Expenditure and Financing in the Statement of Accounts 2022/23.

**The CFR and Gross Debt**

22. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.
23. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2021/22) plus the estimates of any additional CFR for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs.
24. No additional long term loans from the PWLB were taken out in 2022/23 to fund the Capital Programme.

<b>Table 4 – Portfolio Position</b>	<b>2022/23 Estimate £'000</b>	<b>2022/23 Revised £'000</b>	<b>2022/23 Actual £'000</b>	<b>2022/23 Variance £'000</b>
Debt at 1 April	70,265	70,265	70,265	0
Other Long Term Liabilities (OLTL)	0		0	0
<b>Total Gross Debt 1 April 2022</b>	<b>70,265</b>	<b>70,265</b>	<b>70,265</b>	<b>0</b>
Change in Debt	1,924	958	1,924	0
Change in OLTL	0	0	0	0
<b>Change in Gross Debt 2023</b>	<b>1,924</b>	<b>958</b>	<b>1,924</b>	<b>0</b>
Gross Debt 31 March 2023	68,341	69,307	68,341	966
Capital Financing Requirement (Table 3)	123,013	107,826	102,335	(5,491)
<b>Under / (Over) Borrowing</b>	<b>54,672</b>	<b>38,519</b>	<b>33,994</b>	<b>(4,525)</b>

25. An analysis of external borrowing as at 31 March 2023 is presented in Appendix A.
26. **The authorised limit.** This is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level, except that, under s5 of the Act, the authorised limit may be treated as increased in relation to any payment which:
- (i) is due to the authority which has not yet been received by it, and
  - (ii) was not a delayed receipt of a payment which was taken into account when the limit was first arrived at.

The limit set for 2022/23 by Council on 22 February 2022 was £107.815m and actual gross was £68.341m. The Council has therefore maintained gross borrowing within its authorised limit throughout the year.

27. **The operational boundary.** This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The operational boundary set for 2022/23 was £102.615m and actual gross debt at 31 March 2023 was £68.341m. The Council remained within its operational boundary throughout the year.

28. **Actual financing costs as a proportion of net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income), against the revenue stream (council tax, business rates, and various Government grants).

<b>Table 5 – Ratio of Financing Costs to Net Revenue Stream</b>	<b>2022/23 Estimate %</b>	<b>2022/23 Revised %</b>	<b>2022/23 Actual %</b>	<b>2022/23 Variance %</b>
Ratio	23.82	17.12	14.22	-2.90

The actual ratio was lower than originally estimated in 2022/23, principally because borrowing was lower than expected.

### Treasury Position As At 31 March 2023

#### Treasury management debt and investment position

29. The Council's treasury management debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities. Gross debt is shown in Table 4, and Investments (including Cash and Cash equivalents but excluding accrued interest) are shown in Table 6.

<b>Table 6 – Year End Resources 2022/23</b>	<b>2022/23 Estimate £'000</b>	<b>2022/23 Revised £'000</b>	<b>2022/23 Actual £'000</b>	<b>2022/23 Variance £'000</b>
Core Funds / Working Balances	(56,672)	(42,153)	(35,244)	(6,909)
Under / (over) borrowing (Table 4)	(54,672)	(38,519)	(33,994)	4,525
Investments	(2,000)	(3,634)	(1,250)	(2,384)

30. The working balances held at 31 March 2023 were as expected. A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented at Appendix B. The maximum balance invested with each counterparty complied with the limits approved by the Council. Appendix C presents the approved counterparty limits for 2022/23.

31. The Council approved that a maximum of £4m should be invested with UK local authorities for more than 365 days and up to two years, with a maximum of £2m per individual authority. No sums were invested for more than 365 days.

<b>Table 7 – Maximum Principal Sums Invested &gt;365 Days</b>	<b>2022/23 Estimate £'000</b>	<b>2022/23 Revised £'000</b>	<b>2022/23 Actual £'000</b>	<b>2022/23 Variance £'000</b>
UK Government	0	0	0	0
UK Local Authorities **	4,000	4,000	0	(4,000)
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
<b>Total</b>	<b>4,000</b>	<b>4,000</b>	<b>0</b>	<b>(4,000)</b>
** Maximum of £2 million per local authority				

**Investment Performance 2022/23**

**Review of Performance**

32. Investments returns dropped to historically exceptional low levels during 2020/21 and 2021/22. However from a rate of 0.75% in April 2022 there have been a number of increases in the year resulting in a Bank of England base rate of 4.25% by March 2023. This is reflected in the average yield for 2022/23 of 1.72% being significantly higher than in the previous year.
33. Given the low returns available compared to borrowing rates, particularly in the earlier part of the year, the Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking additional external loans.
34. **Investment Policy.** The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in line with the annual investment strategy approved by Council for 2022/23. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as ratings outlooks, credit default swaps, banks share prices etc.). Link Asset Services, the Council's treasury advisors, provide suggested investment durations for the approved counterparties. During 2022/23 no new cash was invested in term deposits. To manage the Council's cash flow, balances were held only in highly liquid accounts, specifically in call accounts and MMFs, with the need for money to be available at short notice having been heightened by the unusual pattern of cash flows resulting from the impacts of the pandemic.

Investment performance in 2022/23 is presented in Table 8.

<b>Table 8 – Investment Performance 2022/23</b>	<b>Average</b>	<b>Interest</b>	<b>Average</b>
---	----------------	-----------------	----------------

	<b>Daily Investment £'000</b>	<b>2022/23 £</b>	<b>Rate %</b>
Fixed Term Deposits	0	0	0
Notice Accounts	712	2,978	0.42
Call Accounts	1,667	18,575	1.11
Money Market Funds	2,912	53,726	2.18
Debt Management Office DDMADF	853	20,673	2.42
<b>Total</b>	<b>6,144</b>	<b>95,952</b>	<b>1.72</b>

35. The average return of 1.72% in 2022/23 is significantly higher than that achieved in 2021/22 and reflects the rise in interest rates that took place throughout the financial year.
36. The original earnings target for 2022/23, set in February 2022, was 1.25%, this was confirmed in the half-yearly update in November 2022. Due to returns increasing over the year, actual performance is comfortably above this target.
37. Appendix C presents the counterparty limits for 2023/24. It is unlikely that cash will be invested in anything other than liquid accounts with instant access.

#### **Investment Counterparty Limits**

38. These remain unchanged from those approved by Council on 22 February 2022 and there are no current proposals for any changes.

#### **Advice Of Link Asset Services**

##### **Treasury Advisors' review of 2022/23 and forward looking commentaries**

39. Link Asset Services' review of the Economy and Interest Rates in 2022/23 is presented as Appendix D.
40. Appendix F is a detailed commentary on interest rate forecasts.

#### **Climate change and air quality**

41. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

#### **Equality and diversity**

42. Not applicable

#### **Risk**

43. Regular monitoring and reporting of the Council's Treasury Management position ensure compliance with Prudential Indicators and the Treasury Management Code of Practice.

#### **Comments of the Statutory Finance Officer**



44. There are no direct financial implications arising from this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategy for 2022/23 approved previously by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies. Variances from the revised budgets for interest receivable and payable for 2022/23 were reflected in the report 'Capital Programme and Balance Sheet Monitoring 2022/23' presented to Cabinet on 15 June 2023.
45. In March 2020 the government consulted on revising the PWLB's lending terms and to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets primarily for yield.
46. In November 2020, the government published its response to this consultation and implemented these reforms.
47. The Council is compliant with the latest PWLB reforms.

### **Comments of the Monitoring Officer**

48. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management in the Public Services (2017 edition).

### **Background documents**

- CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (December 2017 edition)
- CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (July 2018 edition)
- CIPFA Prudential Code for Capital Finance in Local Authorities (December 2017 edition)
- CIPFA Standards of Professional Practice: Treasury Management
- DLUHC Guidance on Local Government Investments
- DLUHC Guidance on Minimum Revenue Provision
- Treasury Management Policy Statement 2021/22 to 2024/25 (Council 24 February 2021)
- Treasury Management Policy Statement 2022/23 to 2025/26 (Council 23 February 2022)

### **Appendices**

Appendix A: External Borrowing as at 31 March 2023

Appendix B: Investments as at 31 March 2023

Appendix C: Investment Counterparties 2022/23

Appendix D: Link Asset Services' Economic Update 2022/23

Appendix E: Link Asset Services' commentary on Interest Rates 2022/23

## Appendix F: Glossary of Terms

Report Author:	Email:	Telephone:	Date:
Jean Waddington (Principal Financial Accountant)	jean.waddington@chorley.gov.uk	01257 515151	23.6.23

**External Borrowing 31 March 2023**

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,566
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,589
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,454
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,216
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	844
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	114
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,607
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,657
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,700
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,150
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	30,041
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,878
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,475
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,550
PWLB loan - Maturity	New	01/03/2022	01/03/2072	2.02	10,000
Public Works Loan Board total					68,341
Local Authorities total (borrowings made for less than 1 year)					10,000
<b>External Borrowing total</b>					<b>78,341</b>

**List of Investments as at 31/03/23**

Counterparty	Type	Amount £'000	Rate %	Date	Maturity
<b>Fixed Term Deposit sub total</b>		<b>0</b>			
Barclays BPA Deposit Account	Call	1,250	0.01%	On Call	n/a
<b>Call Accounts sub total</b>		<b>1,250</b>			
Federated	MMF	0	n/a%	On Call	n/a
Aberdeen Standard	MMF	0	n/a%	On Call	n/a
Blackrock	MMF	0	n/a%	On Call	n/a
<b>Money Market Funds sub total</b>		<b>0</b>			
<b>Total</b>		<b>1,250</b>			

**Investment Counterparties 2022/23**

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
<b>Banks &amp; Building Societies: Call Accounts / Term Deposits / Certificates of Deposit (CDs)</b>				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£5m per group (or institution if independent)
		Red	6 months	
		Green	3 months	
<b>Money Market Funds</b>				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

<b>Yellow</b>	5 years
<b>Purple</b>	2 years
<b>Blue</b>	1 year (only applies to nationalised or semi nationalised UK Banks)
<b>Orange</b>	1 year
<b>Red</b>	6 months
<b>Green</b>	100 days
<b>No colour</b>	Not to be used

## **Economics Update 2023/24**

The overall balance of risks to economic growth in the UK is to the downside.

### **Downside risks to current forecasts for UK gilt yields and PWLB rates include:**

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, the rising gilt yields we have seen of late).
- The Bank of England increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.
- A broadening of banking sector fragilities, which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

### **Upside risks to current forecasts for UK gilt yields and PWLB rates:**

- The Bank of England allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

## **LINK GROUP FORECASTS**

We now expect the MPC will further increase Bank Rate during Q2 and Q3 2023 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5%, but it is possible.

Updated Interest Rate Forecasts

Link Group Interest Rate View	25.05.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
<b>BANK RATE</b>	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
<b>BANK RATE</b>	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

## Glossary of Terms

**Authorised Limit** –represents the limit beyond which borrowing is prohibited and needs to be set and revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

**Bank Rate** – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

**Capital expenditure** – material expenditure on capital assets, such as land and buildings, capitalised in accordance with regulations.

**Capital Financing Requirement (CFR)** – the level of capital expenditure to be financed from borrowing. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism.

**CIPFA** – Chartered Institute of Public Finance and Accountancy

**Counterparty** – the other party involved in a borrowing or investment transaction.

**Credit Rating** – a qualified assessment and formal evaluation of the credit history and capability of repaying obligations of an institution (bank or building society). It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time. Ratings are prepared by Finch, Moody's and Standard & Poor's, and these are monitored by Link Asset Services.

**Gilt** - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

**Liquidity** – the ability of an asset to be converted into cash quickly and without any price discount. The more liquid an organisation is, the better able it is to meet short-term financial obligations.

**LIBID** – London Interbank Bid Rate - the interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by anybody or organisation but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.

**LVNAV MMF** (Low Volatility Net Asset Value MMF) - a type of fund categorised as a Short Term MMF. Units in the fund are purchased or redeemed at a constant price, as long as the value of the assets in the fund do not deviate by more than 0.2% from par.

**DLUHC** – Department for Levelling Up, Homes and Communities (formerly MHCLG)

**Minimum Revenue Provision (MRP)** - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by borrowing. MRP is required even when borrowing is internal rather than external.

**Monetary Policy Committee (MPC)** – independent body which determines the Bank Rate.

**Money Market Fund (MMF)** - mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk.





**Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an early warning indicator to ensure the Authorised Limit is not breached.

**Prudential Code** – the Local Government Act 2003 requires the Council to ‘have due regard’ to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. The Prudential Code is published by CIPFA.

**PWLB** – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

**Revenue expenditure** – day to day items which may not be capitalised without a Government direction, including employees’ pay, transport and premise costs, supplies and services and benefits



Report of	Meeting	Date
Head of Audit and Risk	Governance Committee	Wednesday, 2 August 2023

**CIPFA Audit Committees - Practical guidance for local authorities and police**

Is this report confidential?	No
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Is this decision key?	No
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**Purpose of the Report**

- To present to members the latest CIPFA’s Position Statement: Audit Committees in Local Authorities and Police 2022 and CIPFA guidance – Audit Committees - Practical Guidance for Local Authorities and Police 2022. The report will also present proposals to assess the skills and knowledge of the Committee to ensure a comprehensive training plan can be developed.

**Recommendations**

- The Committee to consider the attached guidance and assist with the review of the skills and knowledge.

**Reasons for recommendations**

- To be successful, the Governance Committee needs to have a good level of understanding of its role and responsibilities and the report aims to contribute to this.

**Other options considered and rejected**

- None.

**Corporate priorities**

- The report relates to the following corporate priorities:

Housing where residents can live well	A green and sustainable borough
An enterprising economy with vibrant local centres in urban and rural areas	<b>Healthy, safe and engaged communities</b>

**Background to the report**

6. The purpose of an Audit / Governance Committee is to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
7. CIPFA have recently issued both a revised Position Statement and new guidance "Audit Committees – Practical Guidance for Local Authorities and Police 2022". The Position Statement and guidance sets the arrangement for the Committee including:
  - Purpose;
  - Model;
  - Core Functions and
  - Membership.
8. The guidance represents best practice and CIPFA expects that all local authorities make their best efforts to adopt the principles contained within the guidance, aiming for effective audit / governance committee arrangements. This guidance replaces the version issued in 2018.
9. To assist members, the Position Statement is attached at Appendix 1 and a full copy of the guidance is attached at Appendix 2.

**Revised Terms of Reference and Effectiveness of the Governance Committee Review.**

10. Members will note that the guidance contains a suggested Terms of Reference (Appendix B) and a Self-Assessment of good practice (Appendix E). It is the intention for the both of the above documents to be assessed and the results brought back to the Committee at the meeting in September for consideration.

**Skills and Knowledge of the Committee.**

11. CIPFA'S guidance acknowledges that there is a range of knowledge and experience that members can bring to the Committee to enable it to perform effectively. It emphasises that there are core areas of knowledge that are beneficial for all Committee members to have.
12. The guidance includes a Skills and Knowledge Framework to allow members to carry out a self-assessment and it is requested by members complete this and return to Democratic Services by the 31<sup>st</sup> August 2023. Hard copies of the framework will be available at the meeting.
13. The results of the self-assessment will be collated by Internal Audit and shared with the Chair of the Governance Committee and will be used to inform the Member Development Programme in 2023 - 24 and beyond.

**Climate change and air quality**

14. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

**Equality and diversity**

15. Not applicable.

**Risk**

16. As the Governance Committee plays an important role in the good governance of the authority, this report sets out to strengthen the arrangements and mitigate the associated risks.

**Comments of the Statutory Finance Officer**

17. There are no direct financial implications arising from this report.

**Comments of the Monitoring Officer**

18. It is clearly important to carry out a skills and knowledge assessment in accordance with up to date guidance. If any gaps in knowledge emerge then appropriate training can be identified to address that.

**Background documents**

There are no background papers to this report

**Appendices**

Appendix 1 CIPFA’s Position Statement: Audit Committees in Local Authorities and Police 2022

Appendix 2 – CIPFA’s Audit Committees: Practical Guidance for Local Authorities and Police 2022.

Report Author:	Email:	Telephone:	Date:
Dawn Highton (Head of Audit and Risk)	dawn.highton@chorley.gov.uk		4.7.23

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

### Scope

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

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

### Status of the position statement

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

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

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

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

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

### Purpose of the audit committee

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

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

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

### Independent and effective model

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

The committee should:

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

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



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

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

### Core functions

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

The specific responsibilities include:

#### Maintenance of governance, risk and control arrangements

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

#### Financial and governance reporting

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

#### Establishing appropriate and effective arrangements for audit and assurance

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

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

### Audit committee membership

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

Characteristics of audit committee membership:

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

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

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

## Engagement and outputs

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

To discharge its responsibilities effectively, the committee should:

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

## Impact

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

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

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# Audit committees:

practical guidance for  
local authorities and police

2022 edition

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

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



# The audit committee member in a local authority

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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 authority's audit committee, you play an important role in the good governance of the authority. 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. Instead of focusing on policy and decision making, it examines the 'engine' of the authority – 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 must 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 an audit committee in an authority. It will support both elected members and co-opted independent members (also known as lay members) to understand the purpose of the committee and 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

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

*Guiding the audit committee* is a supplement to the member guide. It is aimed at those who support the committee, helping them to ensure that its operations are 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. These are available across all parts of this publication.



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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.

CIPFA Position Statement 2022

## HOW THE AUDIT COMMITTEE SUPPORTS OVERALL GOVERNANCE WITHIN THE AUTHORITY

The overall aim of good governance is to align the authority's processes and structures with 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 appropriate stewardship of public assets and resources
- there is transparency and clear accountability for the use of resources in order to achieve 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 governing body (the full council or equivalent), as well as those with leadership roles and statutory responsibilities in the organisation, including the elected mayor (where applicable), chief executive, the chief financial officer (CFO)

and the monitoring officer. In local government, the governing body is the full council or authority. Putting good governance into practice requires both members and officers to play their part.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, the authority sometimes delegates specific governance responsibilities, though CIPFA's recommendation is that the audit committee should remain an advisory committee.

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

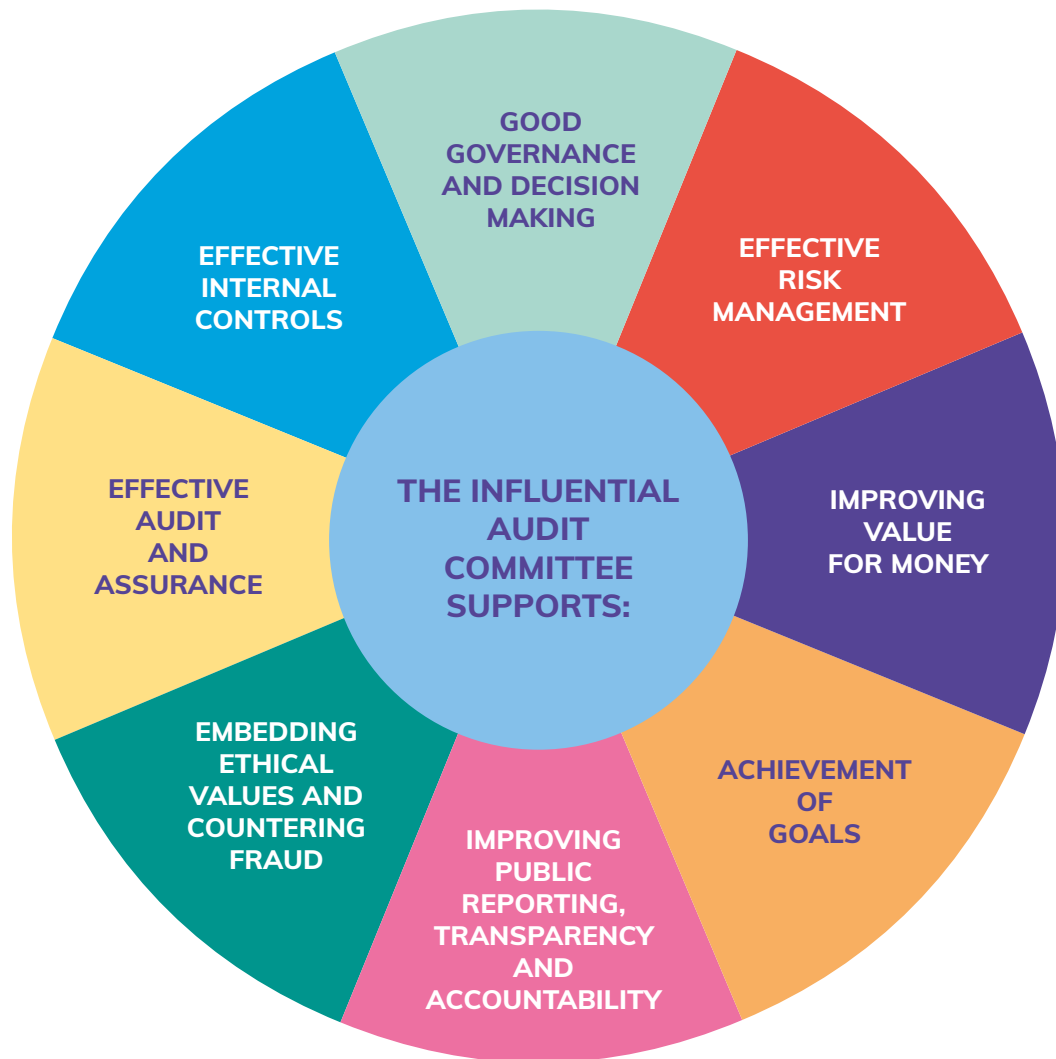
The principal areas where the committee can exert influence and add value are:

- aiding the achievement of the authority'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 risk
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively across the authority
- reinforcing the objectivity, importance and independence of both 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 authority 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 the authority's 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. It is possible for the functions of an audit committee to be undertaken by other committees, but a dedicated resource is likely to be more knowledgeable and effective, with more time to focus on these important issues.



# The core functions of an audit committee

The core functions of audit committees should reflect both standard practice for audit committees across all sectors and the specific legislative and professional standards requirements for local authorities.

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

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.

## MAINTENANCE OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

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### Good governance

Local authorities 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 arrangements are consistent with the principles of good governance. 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 authority's 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 arrangements** for more details on assurance planning).
- Over the course of the year, receive reports and assurances over the application of the governance arrangements in practice.
- Review the governance arrangements being put in place for major developments, such as the establishment of a collaborative arrangement or trading company.
- Monitor implementation of action plans or recommendations to improve governance arrangements.
- Consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee can promote the implementation of good governance across the authority 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 senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in **Independence and accountability**.

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

Further details on the AGS and the committee's role in reviewing it are included later 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 authority is also important for the audit committee. In addition, authorities have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire authority can show the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements for achieving this.

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

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

The authority will have specific arrangements in place to oversee and operate standards, such as a standards 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.

## 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 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 authority's risk management policy and strategy and their implementation in practice
  - overseeing the integration of risk management into the governance and decision-making processes of the organisation
  - ensuring that the AGS is an adequate reflection of the risk environment.
- 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 organisation)
  - 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 are managed effectively and owned appropriately (the committee should avoid duplication of risk monitoring and scrutiny undertaken by other committees)
  - 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 body'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, committees such as policy and resources, cabinet or scrutiny are likely to play a role in the oversight of individual risks and the adequacy of the risk response. The leadership team, including the executive member body, will take the lead in establishing the risk appetite of the authority. The audit committee should understand the roles played by other committees to avoid duplication and confusion with its own role.

Where other member bodies 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 recognise this
- considering if risks have been escalated appropriately and in a timely manner
- supporting the leadership team in their review of risk appetite, though the final decision should remain with the leadership team.

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

## Internal controls

The leadership team and the service managers within the authority are responsible for putting in place appropriate internal control arrangements. The aims of internal controls are to:

- manage risks
- allow 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 authority'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 (a preventative control).
- Procurement rules, guidance and relevant training may be used to ensure that procurement decisions are within the law and achieve best value (a directive control).
- An exception report identifies outlier transactions in a process for review and approval by management (a detective control).
- Procedures to ensure that a copy of data is kept secure and away from the primary system to allow for recovery (a corrective control).

The control framework will include many corporate arrangements such as an authority's 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 to help 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 ensure that the authority has an appropriate level of internal control linked to the authority's attitude to risk.

### Value for money and best value arrangements

Making best use of resources is a key aim for all local authorities and 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 that the authority has set for itself.

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

When planning work in relation to value-for-money arrangements, the audit committee should be mindful of what other committees may do. There is a potential overlap with the work of the scrutiny function, so care will be needed to avoid duplication. For example, a scrutiny committee may receive performance reports that show performance against a dashboard of indicators or may benchmark performance against other bodies.

Using this information, the scrutiny committee will challenge whether the authority is on track to achieve its performance targets and meet its objectives. They will highlight areas where value for money may be an issue. The audit committee will first focus on the overall arrangements that are being 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 work of the audit committee, 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 the authority's external auditors. 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

Local authorities 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 the authority's objectives. When any authority experiences a significant fraud or case of corruption, it damages public perception of that authority and undermines public trust. Effective counter fraud and anti-corruption arrangements also relate to the ethical standards that the public expects members and officers to uphold.

The audit committee should have oversight of the authority'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, collaborations and subsidiaries

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises. Authorities may also be the accountable body for local enterprise partnerships (LEPs). Increasingly, authorities have subsidiary arrangements such as commercial trading companies.

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

The audit committee's role should be to consider assurances on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance, and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and that standards of probity are maintained.

For subsidiary arrangements such as the establishment of a trading company, the audit committee will also need to receive assurances that the governance, risk and control arrangements of the authority's oversight of the company are robust.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage. When reviewing the proposed structure, the committee should consider whether the authority has the necessary expertise, advice and training in place 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?

The audit committee should consider assurances that underpin the AGS to make sure that partnerships are 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

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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 body'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 annual governance statements are important accountability statements that are mandated by legislation and guided by professional standards. These accountability statements are the responsibility of those charged with governance, but the audit committee will play a key role in reviewing the arrangements that underpin them and reviewing the statements themselves.

### Financial reporting

Local government bodies 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 local services provided and their representatives, together with the providers of the resources required to deliver those

services. Local authority members and Members of Parliament are primary users of local authority financial statements in their capacity as representatives of the interests of service recipients and resource providers.

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	
<b>Comprehensive Income and Expenditure Statement</b>	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.
<b>Movement in Reserves Statement</b>	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.
<b>Balance Sheet</b>	This statement summarises an authority’s financial position at each year-end and reports the assets, liabilities and reserves of the authority. Some of the reserves are specific to 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.
<b>Cash Flow Statement</b>	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.

Some authorities will need to include specific statements to account for their activities – for example, the Housing Revenue Account (HRA) or collection fund – and councils in Scotland are required to hold trading accounts (some councils in the rest of the UK may hold these voluntarily). Administering authorities of the Local Government Pension Scheme will also need to produce pension accounts for their fund.

Authorities are required to include a narrative report in the accounts (management commentary in Scotland). This should provide information on the authority, 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 the objectives of the authority have been achieved.

The role of the audit committee is to review the financial statements prior to approval. The statements are the responsibility of all those charged with governance – the full member body – but the audit committee is delegated the responsibility of a detailed review. Some authorities fully delegate responsibility to the audit committee by including final approval of the accounts in the committee’s terms of reference, but CIPFA has always set out the committee’s role to be one of review rather than decision making. In England and Wales, co-opted independent members cannot vote to approve the accounts under Section 13 of the [Local Government and Housing Act 1989](#) (see [Membership and effectiveness of the audit committee](#)).

**Accounts preparation**

The preparation of the statutory statements of accounts is the responsibility of the CFO. The deadline for the publication of the statements is set out in regulations by each of the UK 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 by the authority on material transactions
- changes to the operational basis of the authority – for example, the establishment of a trading company that will need to be consolidated into the accounts
- 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 authority 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 why the method used has been chosen.
- 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 whether further 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 authority to evaluate the effectiveness of its 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. 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 of 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 authority'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 implement the required improvements 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 ARRANGEMENTS

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### Assurance frameworks and assurance planning

The term 'assurance framework' is used to describe the various means through which the authority's leaders, managers and decision makers can trust that the policies and procedures they have approved are being implemented in practice and operating as intended. Putting in place this framework is the responsibility of the leadership team.

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 leadership team.

The audit committee may see references to the Three Lines Model of assurance developed by the Institute of Internal Auditors (IIA). More details of the model are contained in *Guiding the audit committee*. 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 authority such as from external auditors or inspectorates.

Some authorities set out their assurance arrangements in a map or diagram. Typically, these outline key areas of the assurances needed 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 authority 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 to the authority, and it should therefore be proportional to the risk.

## Supporting and making best use of audit

Supporting the authority’s 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

Within an authority, the full council – all elected councillors – are characterised as “those charged with governance”. In practice, the exercise of some governance responsibilities is delegated to specific committees. 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 all councillors have a governance responsibility, and it is important that they are familiar with key messages from the authority's external auditors.

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 local government bodies in Wales, Scotland and Northern Ireland, the national audit bodies are 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, introducing a more direct role for the authority.

In all authorities, 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, for all opted-in bodies, Public Sector Audit Appointments (PSAA) appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel, which will oversee the local appointment process and provide advice to the authority on the final selection. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee can operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

### 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. These disclosures 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 their assessment of threats to independence with the external auditor and any safeguards.



The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA, 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 authority's response to the annual audit report.

While the Code of Audit Practice for each nation 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 arrangements reports – the format of these vary according to the Code of Audit Practice the auditor is working to.
- An annual report.

In England, the Redmond Review recommended that the auditor's annual report should be submitted to full council by the external auditor. CIPFA's recommended approach is that the report should first be submitted to the audit committee for discussion and then submitted to full council by the auditors, accompanied by the response recommended by the audit committee to any significant issues raised in the report. This will support greater transparency with the public and help all elected members understand the outcome of the audit. It should also help to raise the profile of the audit committee among other elected members.

CIPFA also recommends that this approach is adopted by authorities in the rest of the UK unless other arrangements exist to achieve the same level of transparency and strengthened governance.

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 authority may be inspected where it has particular service responsibilities. For example, social care services are inspected by the Care Quality Commission (CQC), education and skills services are inspected by the Office for Standards in Education, Children's Services and Skills (Ofsted), and a fire and rescue authority will be inspected by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS). Other regulatory bodies, such as the Information Commissioner's Office (ICO), may also review and inspect arrangements.

Where inspectorates are focused on 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 within the authority. 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 as part of external audit or internal audit.

## Internal audit

The authority's internal audit service, 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 an important role in the support for and oversight of the internal audit arrangements, helping to hold it to account. 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 sponsor 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 the authority's internal audit is effective, which will mean that the audit committee is better supported, with access to the assurance it needs. Effective internal audit also supports better governance and control arrangements, which are aligned to the audit committee's overall purpose.

Defining the conditions for effective internal audit is not straightforward – different authorities may feel they have effective arrangements using very different service models, for example. However, there are some essential conditions that internal audit needs 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 internal audit activity, the audit committee plays an important role in supporting the organisation'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. CIPFA's research report [Internal audit: untapped potential](#) (2022) also addresses whether public bodies are getting the most from 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.
- Giving approval to internal audit for any significant additional consulting services not already included in the audit plan prior to internal audit accepting an engagement.
- Receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS.
- Overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates.
- Receiving regular reports on the results of the QAIP, including the external assessment.

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

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

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- 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's understanding of and support for effective risk management and wider assurance arrangements is helpful.

Periodically, there are changes made 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**

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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. The assurance framework of the authority should be a useful resource to support this.

**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. For audit committees of councils in Wales, there are some specific requirements set out in legislation.

## REQUIREMENTS OF GOVERNANCE AND AUDIT COMMITTEES IN WALES

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The **Local Government and Elections (Wales) Act 2021** built on requirements first set out in the **Local Government (Wales) Measure 2011**. The specified responsibilities not already covered by the core functions include:

- review and scrutiny of the authority's financial affairs
- review of the performance assessment arrangements of the authority
- review and assessment of the authority's ability to handle complaints effectively.

### Scrutiny of financial affairs

Councils will have scrutiny committees that will undertake budget scrutiny and monitor financial performance. The responsibility of the audit committee is not to duplicate these functions, even though the legislation uses the phrase 'scrutinise'. The committee can ensure that they satisfy this requirement through their review of the financial statements, financial control arrangements and the work of internal audit and external audit.

### Performance assessment arrangements

The 2021 Act introduced a duty on a principal council to keep its performance under review and to undertake a self-assessment of performance. The legislation requires the governance and audit committee to review the self-assessment report and the committee can make recommendations. The council is not required to adopt the committee's recommendations, but it should include an explanation of why it has not adopted the change.

There is also a requirement for a periodic panel performance assessment, and there is a similar requirement for the governance and audit committee to consider the panel report.

The Auditor General for Wales will have the power to undertake a special inspection if a council is thought to not be meeting the performance requirements. The governance and audit committee will receive the Auditor General's report and will consider the council's draft response to the report. If the committee makes recommendations on the draft response, the council is not required to adopt the change but must explain why it has not.

### Developing the approach to the review

The governance and audit committee's focus is on the adequacy and suitability of arrangements rather than performance monitoring. In reviewing the annual self-assessment report the committee should maintain a similar overview.

CIPFA's suggested approach includes:

- consideration of whether the scope and approach to drawing up the self-assessment report is appropriate to fulfil the expectations of the legislation
- whether the council has established appropriate arrangements to obtain assurance over its performance (these arrangements should form part of the wider assurance framework)
- whether the council has carried out the appropriate consultation as part of the performance review
- considering if the panel appointed and the approach to the panel assessment fulfils the requirements of legislation
- whether the report's conclusions and recommendations are consistent with the review and assurances that underpin it
- consideration of whether there are any inconsistencies in information and assurances received by the committee in respect of its other work
- consideration of the recommendations and whether they will maintain and improve the arrangements for performance management going forward.

### Arrangements for handling complaints

Assurance that there are effective arrangements to manage complaints could come within the remit of any audit committee. The specific requirement in Wales does mean that governance and audit committees will have increased focus in this area.

The focus will need to remain on the arrangements and not become a forum for the review of individual complaints. The committee will need to consider how they receive this assurance as part of the wider assurance framework. Complaints may be managed centrally or by individual department, but it should be possible for the committee to receive an overall assessment of the effectiveness of those arrangements. If complaints handling was seen as an area of risk, then it could be included in internal audit plans, but other sources of assurance should be routinely available.

## 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 local authority may nominate another committee instead. CIPFA is aware, however, that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance.

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

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

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When an authority 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 OR OTHER COMMITTEES

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Occasionally, the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee in the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples 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 to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role 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 from other committees in the authority and is accountable to 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 authority's governing body
- in local authorities, be independent of both the executive and the scrutiny functions
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

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

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

## 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.

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## STRUCTURE AND INDEPENDENCE

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### Committee size

In other sectors, audit committees typically have fewer than six members. This is more difficult to achieve in a local authority. CIPFA's recommendation is that authorities should strive to have no more than eight members.

A committee of this size should allow sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.

The use of substitutes on the committee is not recommended. The most effective membership will be based on knowledgeable and skilled members who are able to build on information gained at previous meetings. For example, when reviewing progress on the external audit, the committee member should have been sighted on the audit plan discussed at an earlier meeting.

### Reporting lines

The audit committee is an advisory committee on behalf of those charged with governance. As a result, the committee should report to the full council, fire authority or other local government governing body. It is not appropriate to be a sub-committee of the cabinet, scrutiny or policy and resources committee.

### Dedicated focus

To ensure a focus on the core functions, the committee should not be combined with other council committees such as scrutiny or standards or policy and resources. A combined committee can result in the distinction between the functions of the committees becoming blurred. The audit committee is non-political and should contain co-opted independent members. These arrangements are different to those of scrutiny. While a standards committee is also non-political and may contain lay members, its focus is different. An appropriate lay member for the audit committee may not be suitable for the work of the standards committee and vice versa. More details on the membership of the committee and role of the co-opted independent member are available in [Membership and effectiveness of the audit committee](#).

### Decision-making powers and delegations

CIPFA does not recommend that the audit committee be delegated decision-making powers, as it is advisory.

The committee should be able to make recommendations to other bodies for decisions – for example, to a scrutiny committee for further scrutiny review, and to cabinet, policy and resources or full council for decision. The committee can also make recommendations to the leadership team and service managers – for example, in response to issues raised by auditors.

CIPFA is aware that some authorities do delegate decisions, such as the approval of the financial statements. While the audit committee should lead on the detailed review of the statements, ultimately the statements are the responsibility of all those charged with governance. This is the equivalent of shareholders approving the annual report and accounts of a company.

### Rights of access to documents and requesting attendance at committee

As a committee of the authority, the audit committee can request information relevant to its role and agenda. It is good practice to agree on a protocol, so there is clarity for all parties. Generally,

authorities 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.

There may be times when it is not considered timely to provide the information requested – 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 in particular needs to be briefed.

It is important for audit committee members to maintain an apolitical approach and 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 officers 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

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### Supporting the audit committee

As a full committee of the authority, the committee will receive secretariat support. It will also receive guidance on the proper conduct of the meeting under the authority's constitution and legislation.

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 in balancing the frequency of meetings against the need to give the committee's business 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 will be published. On occasion, there will be agenda items that meet the criteria to be heard in private. The chair should receive advice when a 'part 2' report is scheduled. The rationale for this should be stated.

Some authorities provide facilities for public questions at the start of a meeting. This supports openness and transparency but requires committee support to ensure questions are relevant for the scope of the committee.

## 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 typical for political group meetings to take place before a policy committee meeting; however, the apolitical nature of the audit committee should make such meetings unnecessary.

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. Like all aspects of the committee's work, a private meeting should be non-political.

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.

## KEY RELATIONSHIPS

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To be effective, an audit committee will need to engage with a wide range of officers. Representatives of finance and internal audit will attend regularly and often are a source of support to the committee, but other senior officers 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 and corporate directors for the AGS and other governance-related issues.
- The monitoring officer for the AGS and ethical governance issues.
- The risk management officer for discussions around risk management.
- The head of counter fraud for agenda items on fraud risks and counter fraud activity.
- Service senior managers for audit, risk or governance discussions on their service areas.
- Scrutiny, ethics or standards 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

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### To those charged with governance

The audit committee should be held to account regularly by those charged with governance – full council or the equivalent body in another authority. 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 authority.

### The audit committee annual report

The committee should prepare an annual report that provides assurance to all those charged with governance that it fulfils its purpose and can demonstrate its impact. This is a key output of the committee. The report should be publicly available, supporting the authority'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 independent members.
  - Reporting line and independence from other committees.
  - 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 should be reported. 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 and the key issues escalated to the leadership team or other committees 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 among other elected members. 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 authority and in helping the authority to discharge its responsibilities. 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

Choosing elected members for the committee and appointing additional co-opted independent members is an important step in ensuring the committee can carry out its work effectively. This section examines the characteristics needed by members and practical issues. It also considers the importance of evaluating the effectiveness of the committee.

## 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.

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## COMMITTEE MEMBERSHIP

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### Elected representatives and political balance

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

Ideally, the selection of elected members to the audit committee will take account of aptitude and experience. In practice, most authorities have appointed members according to rules on political balance, even though the committee should be non-political. As long as the committee remains an advisory body and not decision making, then full council can waive the political balance requirement. Potentially, this could increase flexibility in the selection of suitable members.

### Separation from executive roles

The leader of the cabinet, administration, chair of the policy and resources committee or the elected mayor must not be a member of the audit committee. Care should also be taken where councillors in senior policy-making roles are considered for membership. Where an authority has a cabinet system of governance, including a member of cabinet on the committee is discouraged. If the council has a policy and resources committee, members of this committee should also not sit on the audit committee. In addition, chairs of other policy committees should not be members. This will allow members of the audit committee greater independence in their role and assist in a non-political approach.

If an executive member is included, other compensating arrangements should be made to ensure independence – for example, where there is a majority of independent members or an independent chair of the committee. An executive member should not chair the audit committee.

CIPFA recommends that a period of two years should elapse before a councillor who previously held a senior policy role joins the audit committee.

An overlap with other committee roles such as scrutiny or standards is not necessarily a problem. It can add value by bringing knowledge of activity in these areas into the committee. Those who are members of other committees should take care to not blur their roles.

It is important that there is engagement between those deciding policy matters and the audit committee. This will support audit committee members in staying up to date and help policy makers understand recommendations made by the committee. Examples of engagement could include the members of the executive attending the committee to brief them on the actions they are taking, or the chair of the audit committee attending cabinet or policy and resources to explain audit committee recommendations.

### Including co-opted independent members (also known as lay members)

A co-opted independent or lay member is a committee member who is not an elected representative but recruited to join the committee. The objective of including such members is to increase the knowledge and experience base of the committee, reinforcing its independence.

Inclusion of lay members is a legislative requirement for authorities in Wales and for combined authorities in England.

Where there is no requirement to, CIPFA recommends the committee includes two co-opted independent members.



The reasons for CIPFA's recommendation are as follows:

- To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
- To provide continuity outside the political cycle. This is of particular importance where membership of the committee changes annually or because of elections.
- To help achieve a non-political focus on governance, risk and control matters.
- Having two co-opted members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee.
- Having two co-opted members shows a commitment to supporting and investing in the committee.

While including co-opted members can bring real value to the committee, care is needed to ensure that the arrangement works well, both for the co-opted member and for the other committee members. It is essential that the co-opted member receives an adequate induction and ongoing support to provide organisational context and to build working relationships.

### The role of the co-opted independent member

The role description for a co-opted member of the committee will be the same as for an elected representative who is a committee member. The only substantial difference will be where the committee has been delegated decision-making responsibilities – although such delegations are not advised by CIPFA – a co-opted member cannot vote on council policy, so will not be able to take part in the decision, though they can, of course, contribute to the discussions prior to the formal decision. The minutes of the meeting should distinguish between a delegated committee decision and a recommendation from the committee to another council body. The latter is part of the role of an advisory committee and the co-opted member should be able to take part fully.

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

### Remuneration

It is usual practice to provide some form of payment to the lay committee members and to pay expenses for attending meetings. The allowance recognises the value and time contributed by the member. If an independent member is appointed as the committee chair, an additional sum would be appropriate. Elected members of the committee will be paid allowances and expenses in accordance with the authority's agreed arrangements.

### Appointment of the chair

In Wales, a lay member will be recruited specifically to the position of chair, and in other parts of the UK, some authorities have decided on a co-opted independent member for the role. This allows the authority to specify the requirements of the chair during recruitment. In other authorities, the appointment of the committee chair will be decided according to the constitution of the authority. 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 skills

- an ability to bring an objective, apolitical attitude and help ensure the apolitical nature of the committee
- core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. 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.

## 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 authority, so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience – for example, in accountancy, audit, governance and risk management – will add value to the committee.

## 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 co-opted members may have technical knowledge and experience, but they will still need to understand the local government context with which they may not be familiar. Support should also be provided to help integrate them into the committee and familiarise them with the council'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 beneficial impact it has on the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are

essential requirements for delivering effectiveness. 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 legislation (where appropriate).
- 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. In the political environment of an authority, this is more difficult to do. Consideration should be given to facilitating general feedback as part of a wider committee self-assessment. 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. More information on the annual report is available in **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	<p><u>Cities and Local Government Devolution Act 2016.</u></p> <p><u>Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017.</u></p>	<p><u>Local Government (Wales) Measure 2011</u> as amended by the <u>Local Government (Democracy) (Wales) Act 2013.</u></p> <p><u>Local Government and Elections (Wales) Act 2021.</u></p>	<p><u>Financial Management Code of Practice for the Police Forces of England and Wales (FMCP)</u> (Home Office, 2018).</p>	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	<p>Committees must have at least one independent person as defined by guidance.</p> <p>The committee should reflect the political balance of the constituent authorities as far as is reasonably practical.</p> <p>The committee may not include an officer of the combined authority or a constituent council.</p>	<p>The committee must have lay persons comprise one-third of its members.</p> <p>The member appointed as the committee chair must be a lay person.</p> <p>The deputy chair must not be a member of the executive or an assistant to its executive.</p> <p>The committee must be politically balanced.</p>	Police audit committees should comprise between three and five members who are independent of the PCC and the force.	No guidance

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

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

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

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

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

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

### Financial reporting deadlines

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





## APPENDIX B1

# Suggested terms of reference – local authority

## INTRODUCTION

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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

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### Governance

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

### Statement of purpose

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**.

## APPENDIX B2

# Suggested terms of reference – police

## INTRODUCTION

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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

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### 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.



APPENDIX C

# Audit committee members – knowledge and skills framework

## CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> <li>An overview of the authority’s governance structures and decision-making processes.</li> <li>Knowledge of the organisational objectives and major functions of the authority.</li> </ul>	<ul style="list-style-type: none"> <li>This knowledge will be core to most of the audit committee’s activities, including the AGS review, internal and external audit reports and risk registers.</li> </ul>
Audit committee role and functions	<ul style="list-style-type: none"> <li>An understanding of the audit committee’s role and place within the governance structures.</li> <li>Familiarity with the committee’s terms of reference and accountability arrangements.</li> <li>Knowledge of the purpose and role of the audit committee.</li> </ul>	<ul style="list-style-type: none"> <li>This knowledge will enable the audit committee to prioritise its work to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.</li> <li>It will help the committee undertake a self-assessment and prepare its annual report.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>Knowledge of the seven principles as outlined in <b><u>Delivering Good Governance in Local Government: Framework</u></b> (CIPFA/Solace, 2016).</li> <li>The requirements of the AGS.</li> <li>How the principles of governance are implemented locally as set out in the local code of governance.</li> </ul>	<ul style="list-style-type: none"> <li>The committee will review the local code of governance and consider how governance arrangements align to the principles in the Framework.</li> <li>The committee will plan the assurances it is to receive to adequately support the AGS.</li> <li>The committee will review the AGS and consider how the authority is meeting the principles of good governance.</li> <li>The committee will receive audit reports and information on risks relating to governance.</li> </ul>

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit	<ul style="list-style-type: none"> <li>• An awareness of the key principles of the PSIAS and the LGAN.</li> <li>• Knowledge of the arrangements for delivery of the internal audit service in the authority and the charter.</li> <li>• How the role of the head of internal audit is fulfilled.</li> <li>• Details of the most recent external assessment and level of conformance with the standards.</li> <li>• Internal audit’s strategy, plan and most recent annual opinion.</li> </ul>	<ul style="list-style-type: none"> <li>• The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards.</li> <li>• The audit committee will review the assurances from internal audit work and will review the risk-based audit plan.</li> <li>• The committee will also receive the annual report, including an opinion and information on conformance with professional standards.</li> <li>• In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed.</li> <li>• The audit committee chair is likely to be interviewed as part of the external quality assessment, and the committee will receive the outcome of the assessment and action plan.</li> </ul>
Financial management and financial reporting	<ul style="list-style-type: none"> <li>• Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them.</li> <li>• An understanding of good financial management practice as set out in the CIPFA <b><u>Financial Management Code</u></b> (FM Code) and the level of compliance with it.</li> <li>• Knowledge of how the organisation meets the requirements of the role of the CFO as required by <b><u>The Role of the Chief Financial Officer in Local Government</u></b> (CIPFA, 2016) and <b><u>The Role of CFOs in Policing</u></b> (2021).</li> <li>• An overview of the principal financial risks the authority faces.</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewing the financial statements prior to publication, asking questions.</li> <li>• Receiving the external audit report and opinion on the financial audit.</li> <li>• Reviewing both external and internal audit recommendations relating to financial management and controls.</li> <li>• The audit committee should consider compliance with the FM Code and the role of the CFO and how this is met when reviewing the AGS.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>• Knowledge of the role and functions of the external auditor and who currently undertakes this role.</li> <li>• Knowledge of the key reports and assurances that external audit will provide.</li> <li>• Familiarity with the auditor’s most recent plan and the opinion reports.</li> <li>• Knowledge about arrangements for the appointment of auditors and quality management undertaken.</li> </ul>	<ul style="list-style-type: none"> <li>• The audit committee will meet with the external auditor regularly and receive their reports and opinions.</li> <li>• Monitoring external audit recommendations and maximising the benefit from the audit process.</li> <li>• The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service.</li> </ul>

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
<p><b>Risk management</b></p>	<ul style="list-style-type: none"> <li>• Understanding of the principles of risk management, including how it supports good governance and decision making.</li> <li>• Knowledge of the risk management policy and strategy of the organisation.</li> <li>• Understanding of risk governance arrangements, including the role of members and of the audit committee.</li> <li>• Knowledge of the current risk maturity of the organisation and any key areas of improvement.</li> </ul>	<ul style="list-style-type: none"> <li>• In reviewing the AGS, the committee will consider the robustness of the authority’s risk management arrangements.</li> <li>• Awareness of the major risks the authority faces is necessary to support the review of several audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee.</li> <li>• The committee should also review reports and action plans to develop the application of risk management practice.</li> </ul>
<p><b>Counter fraud</b></p>	<ul style="list-style-type: none"> <li>• An understanding of the main areas of fraud and corruption risk that the organisation is exposed to.</li> <li>• Knowledge of the principles of good fraud risk management practice in accordance with the <b><u>Code of Practice on Managing the Risk of Fraud and Corruption</u></b> (CIPFA, 2014).</li> <li>• Knowledge of the organisation’s arrangements for tackling fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation’s fraud strategy and receives reports on the effectiveness of that strategy.</li> <li>• An assessment of arrangements should support the AGS, and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment.</li> </ul>
<p><b>Values of good governance</b></p>	<ul style="list-style-type: none"> <li>• Knowledge of the Seven Principles of Public Life.</li> <li>• Knowledge of the authority’s key arrangements to uphold ethical standards for both members and staff (eg code of conduct).</li> <li>• Knowledge of the whistleblowing arrangements in the authority.</li> </ul>	<ul style="list-style-type: none"> <li>• The audit committee member will draw on this knowledge when reviewing governance issues and the AGS.</li> <li>• Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported.</li> </ul>
<p><b>Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)</b></p>	<ul style="list-style-type: none"> <li>• <b><u>Effective Scrutiny of Treasury Management</u></b> is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> <li>– regulatory requirements</li> <li>– treasury risks</li> <li>– the organisation’s treasury management strategy</li> <li>– the organisation’s policies and procedures in relation to treasury management.</li> </ul> </li> </ul> <p>See also <b><u>Treasure your assets</u></b> (Centre for Governance and Scrutiny, 2017).</p>	<ul style="list-style-type: none"> <li>• Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.</li> </ul>

## SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

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

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

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

CORE SKILLS

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

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



APPENDIX D

# Problem-solving difficulties with the audit committee

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

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

Areas of difficulty	Possible causes	Possible improvement options
<p>The committee lacks focus, and members struggle to gain an overall understanding of their remit.</p>	<ul style="list-style-type: none"> <li>• Committee members have a range of objectives rather than focusing on governance, risk, control and audit matters.</li> <li>• The committee is too large or lacks continuity because of regular attendance by substitutes.</li> <li>• Infrequent attendance by senior officers.</li> </ul>	<ul style="list-style-type: none"> <li>• Training and emphasis on the non-political and strategic focus of the committee.</li> <li>• Reform of the committee structure to reduce membership and remove use of substitutes.</li> </ul>
<p>Senior officers do not understand the work of the committee and are not sighted on its output.</p>	<ul style="list-style-type: none"> <li>• The audit committee fails to engage with other committees in the authority.</li> <li>• Attendance is often limited to the CFO and the head of internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Expand attendance at audit committee meetings – for example, invite heads of service when major risks or control issues are being discussed – and share the CIPFA guidance (FAQs) more widely.</li> </ul>
<p>Elected representatives not directly involved with the committee have little understanding of its work and do not see its output.</p>	<ul style="list-style-type: none"> <li>• Committee recommendations are not directed to appropriate member bodies.</li> <li>• Reporting arrangements are not effective.</li> <li>• Wider induction arrangements do not cover the audit committee.</li> </ul>	<ul style="list-style-type: none"> <li>• Invite newly elected members to attend audit committee meetings.</li> <li>• Review reporting and accountability arrangements.</li> <li>• Prepare an annual report that sets out how the committee has fulfilled its responsibilities.</li> <li>• Share the CIPFA guidance (FAQs).</li> </ul>
<p>Recommendations made by the audit committee are not actioned.</p>	<ul style="list-style-type: none"> <li>• A poor relationship between the committee and the executive or senior officers.</li> <li>• The audit committee's recommendations are not adequately aligned to organisational objectives.</li> </ul>	<ul style="list-style-type: none"> <li>• A senior officer provides internal facilitation to support improved relationships.</li> <li>• Improve knowledge and skills among audit committee members.</li> <li>• Ensure better engagement with appropriate managers or the executive at an earlier stage.</li> </ul>
<p>The audit committee fails to make recommendations or follow up on issues of concern.</p>	<ul style="list-style-type: none"> <li>• A weak or inexperienced chair.</li> <li>• Members are inexperienced or do not fully understand their role.</li> <li>• Poor briefing arrangements prior to meetings.</li> <li>• Committee reports fail to adequately identify the action required by the committee.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide guidance and support.</li> <li>• Improve briefing to the chair prior to the meeting.</li> <li>• Ensure reports contain clear recommendations.</li> </ul>
<p>The audit committee strays beyond its terms of reference – for example, undertaking a scrutiny role.</p>	<ul style="list-style-type: none"> <li>• The terms of reference do not adequately scope the work of the committee.</li> <li>• Misunderstanding about the role of the committee.</li> <li>• Inadequate guidance from the committee secretary to the chair on its role.</li> </ul>	<ul style="list-style-type: none"> <li>• Review the terms of reference and provide training and guidance.</li> </ul>



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



APPENDIX E

# Self-assessment of good practice

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

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

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

**Audit committee purpose and governance**

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

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

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

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

**Membership and support**

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

**Effectiveness of the committee**

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

**AUDIT COMMITTEES \ PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE**  
 THE AUDIT COMMITTEE MEMBER IN A LOCAL AUTHORITY

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?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25 Does the committee make recommendations for the improvement of governance, risk and control arrangements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26 Do audit committee recommendations have traction with those in leadership roles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27 Has the committee evaluated whether and how it is adding value to the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28 Does the committee have an action plan to improve any areas of weakness?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29 Has this assessment been undertaken collaboratively with the audit committee members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Subtotal score</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Total score</b>					
<b>Maximum possible score</b>	<b>200**</b>				

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

APPENDIX F

# 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
<p><b>Promoting the principles of good governance and their application to decision making.</b></p>	<ul style="list-style-type: none"> <li>• Supporting the development of a local code of governance.</li> <li>• Providing a robust review of the AGS and the assurances underpinning it.</li> <li>• Supporting reviews/audits of governance arrangements.</li> <li>• Participating in self-assessments of governance arrangements.</li> <li>• Working with partner audit committees to review governance arrangements in partnerships.</li> </ul>	<ul style="list-style-type: none"> <li>• Elected members, the leadership team and senior managers all share a good understanding of governance, including the key principles and local arrangements.</li> <li>• Local arrangements for governance have been clearly set out in an up-to-date local code.</li> <li>• The authority's scrutiny arrangements are forward looking and constructive.</li> <li>• Appropriate governance arrangements established for all collaborations and arm's-length arrangements.</li> <li>• The head of internal audit's annual opinion on governance is satisfactory (or similar wording).</li> </ul>	
<p><b>Contributing to the development of an effective control environment.</b></p>	<ul style="list-style-type: none"> <li>• Encouraging ownership of the internal control framework by appropriate managers.</li> <li>• Actively monitoring the implementation of recommendations from auditors.</li> <li>• Raising significant concerns over controls with appropriate senior managers.</li> </ul>	<ul style="list-style-type: none"> <li>• The head of internal audit's annual opinion over internal control is that arrangements are satisfactory.</li> <li>• Assessments against control frameworks such as CIPFA's FM Code have been completed and a high level of compliance identified.</li> <li>• Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement.</li> </ul>	



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

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p><b>Aiding the achievement of the authority’s goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing how the governance arrangements support the achievement of sustainable outcomes.</li> <li>• Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</li> <li>• Reviewing the effectiveness of performance management arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives.</li> <li>• The authority’s arrangements to review and assess performance are satisfactory.</li> </ul>	
<p><b>Supporting the development of robust arrangements for ensuring value for money.</b></p>	<ul style="list-style-type: none"> <li>• Ensuring that assurance on value-for-money arrangements is included in the assurances received by the audit committee.</li> <li>• Considering how performance in value for money is evaluated as part of the AGS.</li> <li>• Following up issues raised by external audit in their value-for-money work.</li> </ul>	<ul style="list-style-type: none"> <li>• External audit’s assessments of arrangements to support best value are satisfactory.</li> </ul>	
<p><b>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing arrangements against the standards set out in the <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (CIPFA, 2014).</li> <li>• Reviewing fraud risks and the effectiveness of the organisation’s strategy to address those risks.</li> <li>• Assessing the effectiveness of ethical governance arrangements for both staff and governors.</li> </ul>	<ul style="list-style-type: none"> <li>• Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements.</li> </ul>	

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p>Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability.</p>	<ul style="list-style-type: none"> <li>Working with key members/ the PCC and chief constable to improve their understanding of the AGS and their contribution to it.</li> <li>Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of plain English.</li> <li>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency.</li> <li>Publishing an annual report from the committee.</li> </ul>	<ul style="list-style-type: none"> <li>The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality.</li> <li>The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion.</li> <li>The authority has published its financial statements and AGS in accordance with statutory guidelines.</li> <li>The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements.</li> </ul>	

**OVERALL QUESTIONS TO CONSIDER**

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

**REPORTING RESULTS**

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



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Report of	Meeting	Date
Head of Audit and Risk	Governance Committee	Wednesday, 2 August 2023

### Chair of Governance Committee Response to External Audit Planning Enquiries

Is this report confidential?	No
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Is this decision key?	No
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#### Purpose of the Report

- To present to members of the Committee, the Chair of the Governance Committee responses provided to the planning enquiries made by the External Auditors, Grant Thornton as part of the 2022/23 statutory accounts.

#### Recommendations

- The Governance Committee is asked to consider and approve the responses to the auditors enquiries attached.

#### Other options considered and rejected

- Not applicable.

#### Corporate priorities

- The report relates to the following corporate priorities:

Housing where residents can live well	A green and sustainable borough
An enterprising economy with vibrant local centres in urban and rural areas	<b>Healthy, safe and engaged communities</b>

#### Background to the report

- In line with Auditing Standards and to support the Audit Planning process, the External Auditor needs to establish the risk of fraud or error.
- The questions and responses provided by the Chair of the Governance Committee are attached at Appendix A.

**Climate change and air quality**

7. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

**Equality and diversity**

5. Not applicable.

**Risk**

6. The risks identified to the External Auditors, in response to the planning enquiries are detailed in the appendix to the report.

**Comments of the Statutory Finance Officer**

7. As part of their responsibilities in conducting the audit of the statutory accounts, the External Auditors are required to seek responses, and request information, on all aspects of the Council's activities as they feel are necessary. The information requested as part of their planning enquiries, is in line with this.

**Comments of the Monitoring Officer**

8. It is part of the normal processes relating to the audit of the accounts that External Auditors seek responses from the council on key questions/enquiries. There are no concerns or issues from a Monitoring Officer perspective with this report.

**Background documents**

There are no background papers to this report

**Appendices**

Appendix A - Responses from Governance Committee Chair

Report Author:	Email:	Telephone:	Date:
Dawn Highton (Head of Audit and Risk)	dawn.highton@chorley.gov.uk		29.6.23

## Chorley Borough Council

Responses from Governance Committee Chair:

### Fraud risk assessment

<b>Auditor Question</b>	<b>Response</b>
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>Fraud risks are considered as part of the Council’s risk management arrangements and high risk areas are considered in the Internal Audit risk assessment and Internal Audit plan.</p>
<p>What are the results of this process?</p>	<p>Assurance ratings are awarded to the Internal Audit review of key financial systems and management actions are agreed to address any area of weakness identified. Management actions are monitored by Internal Audit and reported to Governance Committee.</p>
<p>What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>The Grace Risk Management System is in place, risks and associated controls are updated on a regular basis by responsible Officers. Internal Audit review the risks and controls during the course of the year. Advice and guidance is provided to responsible officers by Internal Audit.</p> <p>The Internal Audit six month plan is risk based and approved by Leadership Team and Governance Committee.</p> <p>Monitoring of management actions by Internal Audit and reporting to Governance Committee.</p> <p>A range of probity policies are in place including:</p> <p>Whistle Blowing, Anti-Fraud &amp; Corruption, Anti Money Laundering, &amp; Anti Bribery Policy.</p> <p>Arrangements for responding to fraud are in place and are detailed in the Fraud Response Plan. (available on the Loop).</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>As above</p> <p>Those areas most at risk of fraud are where cash transactions can be manipulated and corrupted, and the awarding of contracts.</p> <p>High risk areas are considered in the Internal Audit risk assessment and six month plan.</p> <p>Key financial systems are reviewed routinely by</p>

	Internal Audit on a cyclical basis.
Are internal controls, including segregation of duties, in place and operating effectively?	The Grace Risk Management System is in operation and by using this system internal controls are clearly identified and recorded. Controls are examined and tested by Internal Audit based on the inherent and residual risks. Where control weaknesses are identified, management actions are agreed to help strengthen those controls.
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No – All finance department services and records are available for audit inspection.
Are there any areas where there is a potential for misreporting?	All services and internal processes can potentially be subject to Internal Audit Review.
How do the Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	Quarterly reporting by Internal audit.  Approval of the six month risk based Internal Audit Plan.  Monitoring of management actions by Internal Audit and reporting to Governance Committee.
What arrangements are in place to report fraud issues and risks to the Governance Committee?	There is a direct line of communication between Internal Audit and Governance Committee.
How do the Council communicate and encourage ethical behaviour of its staff and contractors?	Through communicating Council values with employees, the community and partners through publication of the Corporate Strategy.  Employee code of conduct (and supporting disciplinary procedures for breaches), Member and Officer Protocol.  A range of probity policies are in place including:  Whistle Blowing, Anti-Fraud & Corruption, Anti Money Laundering, & Anti Bribery Policy.  The wording of Council contracts that Legal produce include relevant clauses on ethical behaviour.  Mandatory fraud awareness training for all staff repeated at regular intervals.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	A range of probity policies are in place including:  Whistle Blowing, Anti-Fraud & Corruption, Anti



	<p>Money Laundering, &amp; Anti Bribery Policy.</p> <p>Mandatory fraud awareness training for all staff repeated at regular intervals.</p> <p>Arrangements for responding to fraud are in place and are detailed in the Fraud Response Plan. (available on the Loop).</p> <p>No significant issues have been reported to Internal Audit.</p> <p>No reports have been made under the Bribery Act.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>None</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud within the Council since 1 April 2022?</p>	<p>None</p>

**Law and regulation**

<b>Auditor Question</b>	<b>Response</b>
<p>What arrangements do the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>Role of Monitoring Officer and team of qualified lawyers to advise officers.</p> <p>Work of internal audit, Corporate Governance Group, Governance Committee, Standing Orders, Financial Regulations and Contract Procedure Rules within the Constitution.</p> <p>All committee reports contain comments from the Monitoring Officer &amp; CFO.</p> <p>Internal controls and risk management processes.</p>
<p>How do management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>It is a requirement of the Monitoring Officer to receive and comment on all Council and executive decisions.</p> <p>Annual and interim Internal Audit reports to Governance Committee.</p> <p>External Audit assurance.</p> <p>On-going monitoring and reporting of the Strategic Risk Register to Governance Committee.</p> <p>Legal Services advise and comment on legal implications e.g. in Committee Reports.</p>
<p>How is the Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer attends all Governance Committee meetings. Furthermore, the Monitoring Officer comments on all reports presented to the Governance Committee. Any issues would be brought to the attention of Committee.</p>
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2022?</p>	<p>None</p>
<p>What arrangements do the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Claims are initially served on the Council's Monitoring Officer who will then advise relevant other officers / members depending on the size and nature of the claim.</p> <p>The Council has a number of qualified legal staff who are trained and experienced to identify any possible legal liability. In situations where potential legal liability is identified then the Council's Legal team will refer the matter to the Assurance team for liaison with our</p>

	insurers as appropriate.
Is there any actual or potential litigation or claims that would affect the financial statements?	None

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Report of	Meeting	Date
Director (Change and Delivery)	Governance Committee	Wednesday, 2 August 2023

## Strategic Risk Review

Is this report confidential?	No
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Is the decision key?	No
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### Purpose of the Report

1. The Strategic Risk Register is used by the Council to identify and address any potential risks to the organisation and the delivery of its functions which need to be managed strategically.
2. This report provides members with an updated Strategic Risk Register, setting out the strategic risks to the council, control measures and actions planned to help manage risk.

### Recommendations to Governance Committee

3. That members note the strategic risks, controls in place and actions planned to further mitigate risk as set out in the report.

### Reasons for recommendations

4. To note and comment on the Council's Strategic Risk Register and support the monitoring of key strategic risks.

### Other options considered and rejected

5. No other options have been considered as the report is for information only.

### Executive summary

6. The Council operates in a changing political, economic and financial environment. The Strategic Risk Register is therefore a live document and needs to be updated to reflect any new or emerging strategic risks facing the Council.

- 7. This report contains the annual update of the risk register for member’s information and comment and includes updates identified by the Shared Senior Management team through interim reviews conducted throughout the year. The updated version of the risk register is also recorded on GRACE, the Council’s risk management system.

**Corporate priorities**

- 5. The report relates to the following corporate priorities:

<b>Housing where residents can live well</b>	<b>A green and sustainable borough</b>
<b>An enterprising economy with vibrant local centres in urban and rural areas</b>	<b>Healthy, safe and engaged communities</b>

**Background to the report**

- 8. The Strategic Risk Register is a key part of the Council’s risk management system, working alongside service level and individual project level risk registers. The risk registers consider the key risks that are applicable to Corporate Strategy and service delivery across the Council as a whole.
- 9. The Council operates in a continually changing political, economic and financial environment. The Strategic Risk Register is therefore a live document and needs to be updated to reflect any new or emerging strategic risks facing the Council.
- 10. The Strategic Risk Register is owned by the Senior Management Team and is stored and managed through GRACE, the council’s risk management system. SMT are responsible for identifying, owning, monitoring and delivering actions to mitigate strategic risk, including ensuring that any actions against each risk are completed.
- 11. All risks are scored on a 4x4 risk matrix as outlined below. Inherent risks set out the likelihood and impact of a risk if there were no control measures in place and residual risk scores take into account the risk once control measures are in place but before further actions have been carried out.

<b>Major</b>	4	4 Low	8 Medium	12 High	16 High
<b>Serious</b>	3	3 Low	6 Medium	9 Medium	12 High
<b>Minor</b>	2	2 Low	4 Low	6 Medium	8 Medium
<b>Insignificant</b>	1	1 Low	2 Low	3 Low	4 Low
		1	2	3	4

**Rarely –**  
there is a slight possibility that the event will occur

**Unlikely-**  
there is a possibility that the event will occur or there is a history of occasional occurrence within the authority

**Likely –**  
There is a strong possibility that the event will occur or there is history or regular occurrence within the Authority

**Highly likely -**  
there is little doubt that the event will occur

### Summary of risks

12. A summary of the updated risks for 2023/24 is outlined in the table at the end of the report. This includes a summary of the existing control measures and actions in place to mitigate risk alongside any changes to the risk level since the last review. The full register including all of the existing control measures and actions is available in appendix A.

### Highest Scoring Risks

13. Many of the highest scoring risks focus on delivering Council priorities, including service delivery, large scale capital projects, and working with strategic partners to deliver outcomes. These reflect the key challenges facing the organisation such as the budgetary pressures and financial uncertainty which is reflective of the current national economic context and being managed through the transformation programme and delivery of the Medium- Term Financial Strategy. In addition, ICT and cyber security also remain a high risk to the council due to the potential impact on service delivery and reputational damage which is being managed through the delivery of the ICT plan.
14. There are strong control measures in place to mitigate these risks, including as part of the Council's governance framework and budget setting and monitoring processes.
15. The highest scoring risks, with an inherent risk score of 16 and residual risk score of 12 are outlined below. Existing control measures and planned actions to help further mitigate risk are outlined within the summary table.
  - R1- Failure to realise the value of major investments
  - R3- Budget challenges in key public and third sector partners having a negative impact on local level service delivery.
  - R16- Failure of ICT security
16. R5- 'lack of resources to deliver the Council's priorities due to public sector funding cuts or lack of staff capacity and skills' is also a high scoring risk with an inherent risk score of 16 and a residual risk score of 9.

### Changes to risk scores

17. There are 17 risks included on the strategic risk register. Since the previous review, 1 risk has decreased and 1 risk has increased in score, 1 risk has been removed and 1 new risk has been identified.
18. The risks which have decreased in score include:
  - **R14- Failure of shared services arrangements.** The inherent risk score has been reduced from 12 (high) to 8 (medium) to reflect that the phase 1 and 2 shared services have become more embedded and established over the last year, with good progress on the development plans and increased satisfaction for newly shared services following the latest pulse survey.



19. The risks which have increased in score are set out below:
- **R11- Incidents affecting service delivery.** The inherent risk score has increased from 8 (medium) to 12 (high) and the residual risk from 4 (low) to 9 (medium.) This reflects the increased risk of industrial action which could impact on service delivery and business continuity. In the case of industrial action, a full plan has been identified to prioritise services and identify areas where staff could be redeployed to minimise the impact on customers.
20. A new risk has been identified as **R15 ‘failure to act to address the impact of climate change’** to reflect both the reputational risk and negative impact on our communities because of the Climate Emergency. This has been allocated an inherent risk score of 12 (high) and residual risk score of 9 (medium) with mitigating actions including the council’s Climate Change Strategy and action plans.
21. The risk for **‘failure to manage the recovery from COVID-19 effectively’** has been removed from the register. This is to reflect that the recovery actions have been subsumed as part of wider pieces of work and delivered as part of business as usual including the response to the cost of living crisis. Therefore, the recovery of COVID-19 no longer needs to be identified specifically as a key strategic risk. This better reflects the wider long-term economic impact from the pandemic and impact on communities.
22. To ensure that the Strategic Risk Register remains streamlined and relevant, there are two areas where similar risks have been aligned to reduce duplication and reflect similarities in risk, control measures and mitigating actions.
- a) The risks for ‘incidents affecting ICT service delivery/ business continuity or even widespread damage, injury or risk to the public ‘ and ‘cyber attacks that impact on business continuity and service delivery’ have been aligned as a new risk **R16 ‘failure of ICT security to prevent cyber attacks, uphold data protection and maintain ICT service delivery.’**
  - b) The risk for ‘failure to maximise new technology and organisational change’ has been aligned to **R4’ failure to optimise opportunities for new ways of working.’**

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
R1- <del>Poor management of large investments</del> Failure to realise the value of major investments	Failure to realise the value of large <del>investments and achieve return on investments</del> scale investments linked to the capital programme delivery and oversight	16	12	→	<p>Risk level maintained. Current control measures in place include the budget setting process and monitoring, project and programme management, wholly owned company steering group, Senior Management Team programme board and Transformation Focus Group.</p> <p>The title for this risk has also been changed from 'poor management of large investments' to 'failure to realise the value of large investments.' This better reflects the risk description and external factors including current economic context.</p>	Further actions to mitigate risk include the introduction of a commercial stream to the Transformation Programme to identify opportunities for income generation and to review the council's commercial portfolio.
R2- Failure of partnerships	Failure to achieve desired outcomes through partnership working and deterioration in relationships	12	6	→	<p>Risk level maintained based on continued close working relationships between partners including the Chorley and South Ribble Partnership. This means that whilst there are dependencies on external partners to achieve some of the Council's strategic objectives, partnership working remains robust.</p>	Planned actions to further reduce risk include a review of the council's Key Contract and Partnership framework to ensure that robust monitoring of key partnerships is in place. The council will also continue to engage in discussions related to system change at a Lancashire level.

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
R3- Detrimental impact of budget challenges	Budget challenges in key public and third sector partners having a negative impact on local level service delivery	16	12	→	<p>The risk level has been maintained to reflect that whilst the Council retains a strong financial position there is some uncertainty in funding, including for our key public and third sector partners, due to the impact of inflation, cost of living crisis and government funding.</p> <p>Current measures in place include the Medium-Term Financial Strategy, Transformation Strategy to minimise the impact on communities and strong partnerships with key public sector partners.</p>	<p>Additional actions have been identified to further mitigate risk including the delivery of the refreshed transformation programme and engaging in discussions in Lancashire around Levelling Up to ensure Chorley benefits from available funding.</p> <p>The Council will also continue to respond to partner consultations on budget pressures and ensure that local issues are highlighted.</p>
R4- Failure to adapt to new ways of working	Not adapting to new ways of working- Failure to optimise opportunities for	12	6	→	The risk level has been maintained, reflecting the continuing work through the ICT programme and Digital Strategy, and delivery of the Workplace Strategy to set out a vision and action	Actions to further mitigate risk include the continued delivery of the ICT plan which will help to ensure that the right infrastructure and technology is in place to support new, hybrid, ways of working. The transformation

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
	new ways of working				plan for future ways of working.	programme will also ensure that the council optimises any opportunities for new ways of working including digital, service delivery and organisational development programmes.
R5- Lack of resource	Lack of resources to deliver the Council's priorities due to public sector funding cuts (financial & staff capacity) or lack of staff capacity and skills (including as a result of issues in relation to recruitment and retention)	16	9	→	<p>This risk level has been maintained to reflect that public sector funding and recruitment remain key challenges for the Council despite some recent success in recruitment campaigns.</p> <p>Current control measures in place include the corporate strategy and service level business plans to assess the levels of resource needed and enable the delivery of income generation or efficiency projects, alongside the Medium Term Financial Strategy and budget setting process to manage current and new resources.</p> <p>Resilience from shared services arrangements and the Organisational Development programme help to mitigate the risk of lack of staff capacity or skills.</p>	<p>Actions identified to further mitigate the risk include a focus on business growth and income generation through the Transformation Strategy review of the commercial programme and income generation opportunities which will help to ensure a sustainable position for the council. SMT will also continue monitoring any potential financial impact in relation to the Cost of Living and inflation.</p> <p>The People Strategy will support recruitment, retention and staff development through a review of rewards and recognitions, an employee experience to develop shared values and ongoing graduate and apprenticeship programmes to 'grow our own'. Refresh of Terms and Conditions?</p>

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
R6- Failure to adapt to changing service demand	Failure to react to changing service demand including any <del>change in demand due to the recovery from COVID-19</del> and internal skill gaps to address this	8	6	→	<p>Risk level maintained with the reference to COVID-19 removed from the risk description to reflect the reducing impact of COVID-19.</p> <p>Current measures in place to mitigate risk include use of system data to assess service demands, self-service to help manage customer demand, and the ICT and Digital Strategy to help manage demand more effectively through new technology.</p> <p>To ensure that the right skills are in place across the organisation to meet service demand, a new People Strategy has been developed to identify workforce capacity and skill gaps.</p>	Further actions to mitigate risk include action to reflect emerging service demand in relation to Ukraine and the cost of living crisis including adapting community support (such as a Ukrainian sponsor support network) and monitoring of any council requirements (such as administration of Household Support grants or rebates.)

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
R7- Reduction in satisfaction with the council	Reduction in satisfaction with the Council	6	6	→	<p>The latest resident survey from 2021 shows increased resident satisfaction with the Council, however there is still a need to proactively manage the risk to ensure that resident satisfaction remains high.</p> <p>Current control measures include methods of measuring customer satisfaction including the resident survey and corporate health dashboard. Tangible improvements projects in the corporate strategy, customer focus and delivery of communications, campaigns and events are also in place to help support high satisfaction with the Council.</p>	<p>Further actions to be delivered include implementing and embedding the Customer Access Charter to ensure high levels of customer service standards across the organisation, and duty officers to ensure that customers can easily access specialist services.</p> <p>The implementation of full omnichannel contact centre functionality (examples) will also help to improve the customer experience by introducing a wider range of contact channels (including web chat) and enabling the implementation of a customer satisfaction survey.</p>
R8- Reduction in performance	Failure to sustain our performance	12	6	→	<p>Current risk level maintained to reflect that whilst performance remains strong across the Council, growing service demand and changes to Government policy bring challenges to the Council</p>	<p>A new action has been identified to reflect the current restructure of the Performance and Partnerships team which will provide a greater emphasis on business partnering and providing advice and support to service areas</p>

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
		8	6		<p>that may impact on performance.</p> <p>Current control measures in place to ensure that performance is monitored and sustained include the performance management framework which includes regular reporting of corporate strategy projects and indicators, the Project and Performance Leads Network to ensure that the framework is embedded with high quality data and reporting, benchmarking exercises, and the business planning process to identify relevant service level indicators.</p>	on performance management.
R9- Failure to respond to external legislative change	Failure to adapt to external legislative and policy change affecting service delivery	8	6	→	Risk level maintained. To minimise the risk of not responding to external legislative and policy change, control measures are in place including training and development for staff on new legislation, professional subscriptions in relevant service areas, SMT to monitor any policy and legislative changes in	Actions to continue to mitigate risk include to continue to engage in plans aligned to wider policy changes including Levelling Up and UKSPF funding.

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
					their areas, and the BREXIT risk register.	
N/A	<p>Failure to maximise new technology- Failure to fully realise the benefits of new technology and related impact on driving organisational change. This includes the failure of staff to take up new technological changes.</p> <p><b>RISK ALIGNED TO R4</b></p>	16	9		This risk has been aligned to R4 Failure to optimise opportunities for new ways of working. This is to reflect the similarities between the risks including existing control measures and mitigating actions, to help streamline the Strategic Risk Register.	



Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
R10- Low staff satisfaction and morale	Reduction in staff satisfaction and morale with the Council including increase in sickness absence	12	6	→	<p>This risk level has been maintained to reflect that, overall, staff satisfaction and morale is stable across the organisation.</p> <p>Actions in place to mitigate this risk include regular pulse surveys and continued staff engagement which have helped to identify specific areas for development with action plans in place.</p>	Further actions to be delivered include an interactive staff experience to support the development of shared values and behaviours, the review and relaunch of staff rewards and recognition, a team talk initiative to encourage cross team learning and collaboration, and the implementation of the new, better terms and conditions across the organisation.
R11- Incidents affecting service delivery	Incidents affecting service delivery/business continuity or even widespread damage, injury or risk to the public	12	9	↑	<p>This risk has been increased from 8 (inherent risk) to 12, and 4 (residual risk) to 9. This reflects the increased risk of incidents that will impact on service delivery and business continuity in light of the increased risk of industrial action. Current measures in place to control the risk of incidents affecting service delivery include business continuity plans, emergency planning,</p>	A new action has been identified for all business continuity plans to be embedded on the dedicated system, and for a desktop testing exercise to be undertaken to ensure that plans are robust.

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
		9	4		command and control structure and national, regional and local security plans. Regular SJCC meetings also take place to ensure continued dialogue with the union.	
R12- Damage to the council's reputation	Damage to the council's reputation and potential reduction in resident satisfaction in relation to high profile decision making	9	4	→	<p>Risk level maintained. Current control measures in place include governance arrangements, the corporate strategy to include tangible improvement projects, and communications and engagement with stakeholders. Other existing measures include ways to monitor and act on any issues that might impact on the Council's reputation such as the residents survey, performance monitoring and monitoring of social media.</p> <p>The Key Contracts and Partnership Framework and monitoring is also included as a control measure to reflect arrangements for assessing risk to service delivery through strategic partners including the Leisure Company</p>	Planned actions include the delivery of audit management actions that have been identified through internal audits review, alongside the delivery of actions on the Annual Governance Statement. These will help to ensure that the council continues to improve the strong governance and control measures that are in place.

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
					and Waste Contract.	
R13- Poor relationships between officers and political parties	Failure to build and maintain strong relationships of trust and confidence between officers and each party to promote good and open relationships between political parties	6	2	→	Risk level maintained. Some of the current control measures in place to mitigate this risk include meetings with the Leader/ Leader of the Opposition, attendance at political group meetings to address key issues, all party Leaders meetings, corporate strategy engagement with political parties and member development.	Planned actions to further mitigate risk include the continued delivery of the member development programme, including a World Café Event to allow members to meet the Senior Leadership Team.
R14- Shared Services arrangements	Failure of Shared Service arrangements	8	4	↓	Risk level reduced from 12 (high) to 8 (medium) to reflect that the phase 1 and 2 shared services have become further embedded and established over the last 12 months. The new phase 3 shared service has also been implemented more smoothly than in previous shared services.	A new action has been identified to identify the future of shared services following the implementation of the phase 3 service, with options to be presented to the Shared Services Joint Committee for consideration. This will help to set out a clear plan for the future approach to shared services.

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
		9	6		<p>Current control measures in place include effective governance arrangements and monitoring through the Shared Services Joint Committee to report on progress and performance against the shared service teams. Additional senior management capacity is now also in place to support change management.</p> <p>Service development plans are scheduled to be delivered for each shared service to set out the transformation of the teams to a single operating model and will help to ensure the successful implementation of new shared services.</p>	
N/A	Failure to manage the recovery from COVID-19 effectively	9	6		This risk has been removed from the register to reflect that there is no longer a key risk of failure to recover effectively from the Covid-19 pandemic. The longer-term economic impacts of	

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
	<b>RISK REMOVED</b>				the pandemic and cost of living crisis are reflected within other risks.	
R15 – Failure to act to address to impact of climate change	Failure to act successfully to meet commitments made by the Council to address climate change, alongside the risk of negative impacts on our communities as a result of the Climate Emergency.	<b>12</b>	<b>9</b>		<p>This is a new risk that has been identified to reflect both the reputational risk and negative impact on our communities as a result of the Climate Emergency.</p> <p>Control measures in place include climate change strategies and actions plans, dedicated Climate Change officers and Planning Policy which considers the environmental impact of new developments.</p>	A new action has been identified to refresh the current climate change action plan to ensure that it is tailored against potential external funding.
R16- Failure of ICT security	<del>Incidents affecting ICT service delivery/</del> <del>business</del>	<b>16</b>	<b>12</b>	→	This is a new risk to align the risks for ‘incidents affecting ICT service delivery’ and ‘risk of cyber-attacks that impact business continuity.’ The risk level has	Further actions to mitigate risk include the delivery of further cyber security training to officers to highlight the risks faced by the council, and the continued delivery of the

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
	<p><del>continuity or even widespread damage, injury or risk to the public</del></p> <p>Failure of ICT Security to prevent cyber attacks, uphold data protection and maintain ICT service delivery.</p>	16	12		remained the same as the two previous risks. Current measures in place to mitigate risk include information security policies and procedures, national, regional and local security plans, and staff awareness of ICT risks/threats.	ICT plan to ensure that improvements continue to be made to ensure that our infrastructure and technology is secure. A further action has also been identified to refresh the Information Security Council terms of reference to ensure clear lines of responsibility for information security across the council.
N/A	<p>Cyber-attacks that impact business continuity and delivery</p> <p><b>Risk aligned to</b></p>	16	12		This risk has been removed and aligned to R16 to reflect the similarities between the risks and to help streamline the risk register.	

Risk No.	Description of Risk	Inherent Score	Residual Score	Direction	Comment	Planned actions
	<b>R16</b>					
R17- Failure to optimise new options for income generation	Failure to optimise new options for income generation	<b>12</b>	<b>8</b>	→	Risk level maintained. Current control measures in place include the corporate strategy which provides opportunities to identify projects for income generation.	The delivery of the Medium-Term Financial Strategy and Transformation Strategy and Programme will also help to mitigate this risk by ensuring that frameworks are in place to identify, monitor and deliver options for income generation.

**Climate change and air quality**

23. The work noted in this report does not impact on the Councils Carbon emissions and the wider Climate Emergency and sustainability targets of the Council.

**Equality and diversity**

24. This report has no equality or diversity implications.

**Risk**

25. Strategic risk for the Council is outlined within this report.

**Comments of the Statutory Finance Officer**

26. There are no direct financial implications of this report. Risk implications that have a direct impact upon finance are recorded and reported in the quarterly financial reports

**Comments of the Monitoring Officer**

27. The report is for noting and information. There are no direct legal implications arising. Obviously it is important that the Council is fully sighted on the major risks that it is confronted with. There are no concerns from a Monitoring Officer perspective with the report.

**Appendices**

Appendix A- Strategic Risk Register

Report Author:	Email:	Telephone:	Date:
Caroline Winstanley (Transformation Co-ordinator)	caroline.winstanley@chorley.gov.uk	N/A	20 July 2023



Risk	Risk Description	Risk Owner	Inherent Risk Score	Existing Control Measure	Existing Control Measure Description	Residual Risk Score	Risk Category	Target Risk Level	Action Plan Title	Action Plan Description	Action Plan Owners
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Items in Group: 17

**Chorley Council Strategic Risk Register**

R1 - Failure to realise the value of large investments	Failure to realise the value of large scale investments linked to the capital programme delivery and oversight	Chris Sinnott (Chief Executive (Chorley and South Ribble))	16	Budget setting process	Budget setting process	12	Risks associated with financial planning & control	6	Delivery of the asset and commercial programmes as part of the council's Transformation Strategy	Includes review of the council's assets, review of opportunities for income generation, and review of the council's commercial portfolio	Vicky Willett (Director Delivery and Change)
				Regular budget monitoring	Regular budget monitoring						
				Project & programme management	Project & programme management						
				Major Project and Wholly Owned Company Steering Group							
				SMT Programme Board	Programme Board to monitor progress and delivery						
				Representation in the Corporate Strategy	Large investment projects listed within the Corporate Strategy to allow for regular reporting through Programme Board						
				Transformation Programme and Focus Group							
Ongoing monitoring of investment projects through quarterly monitoring and Corporate Strategy Programme Board											
Standard business case for capital investments	A standardised business case is now in place for capital investments to ensure a high quality of reporting and informed decision making										
R2-Failure of partnerships	Failure to achieve desired outcomes through partnership working and deterioration in relationships	Chris Sinnott (Chief Executive (Chorley and South Ribble))	12	Chorley and South Ribble Partnership and role of the Executive	Chorley and South Ribble Partnership and role of the Executive in leveraging priorities	6	Risks relating to the failure of partners/contractors or the contract itself Risks relating to the reputational risks to the Council	4	Review of Key Strategic Partnership Framework	Review of framework to ensure that it is up to date and reflects best practice in monitoring key strategic partnerships	Vicky Willett (Director Delivery and Change)
				Partnership working	Partnership working is a key management competency and part of values and behaviors to be expected of staff				To engage proactively in discussions around emerging system changes and activity at a Lancashire Level aligned to the Levelling Up agenda	Chris Sinnott (Deputy Chief Executive (Chorley and South Ribble)) Vicky Willett (Director Delivery and Change)	
				Existing working relationships	Working relationships with key partners, both officer and elected member.						
				Key Contracts and Partnerships Framework	Key Contracts and Partnerships Framework in place to regularly monitor partnerships against determined objectives						
				Active role in Integrated Care System	Active role of Chorley and South Ribble Partnership in the newly established Integrated Care Boards						
R3 - Detrimental impact of budget challenges	Budget challenges in key public and third sector partners having a negative impact on local level service delivery	Chris Sinnott (Chief Executive (Chorley and South Ribble))	16	Existing relationships with key public sector partners	Existing relationships with key public sector partners to continue to deliver outcomes to residents	12	Risks impacting on the achievement of corporate objectives and priorities Risks associated with financial planning & control Risks relating to the failure of partners/contractors or the contract itself Risks relating to the reputational risks to the Council	6	Engaging proactively in Lancashire wide plans aligned to Levelling Up to ensure Chorley benefits from future funding opportunities		Vicky Willett (Director Delivery and Change)
				Chorley and South Ribble Partnership	Chorley and South Ribble Partnership						
				Continued delivery of the Transformation Programme	Continued delivery of the Transformation Programme to identify and achieve income generation and savings						
	Intermediate solutions to county cuts and county council transformation budget	Intermediate solutions to county cuts and county council transformation budget									

				Impact assessment undertaken regarding LCC's budget cuts	Every year prior to budget setting we analyse the LCC budget to identify the impacts on CBC budgets and include this, where necessary, in the CBC final budget.						
				Chorley Council response to LCC consultations							
				MTFS	MTFS and budget monitoring in place to regularly monitor impact of funding and budget gaps alongside local level service delivery						
R4 - Failure to adapt to new ways of working	Failure to optimise opportunities for new ways of working	Chris Sinnott (Chief Executive (Chorley and South Ribble))	12	Key strategic partnership framework	Key strategic partnership framework in place to provide monitoring and assurance for new opportunities to work with partners and through contracts to deliver outcomes	6	Risks associated with financial planning & control Risks relating to the failure of partners/contractors or the contract itself Risks relating to operational activity Risks relating to the reputational risks to the Council	4	Review key strategic partnership framework	Partnership framework to be reviewed to ensure this is line with meeting the councils objectives	Vicky Willett (Director Delivery and Change)
				Corporate Strategy	Ambitious Corporate Strategy to identify new corporate projects for new				Assets and income generation programmes to be delivered as part of the Transformation Programme	Transformation programme workstreams for a review of assets, review of income generation and review of the commercial portfolio	Vicky Willett (Director Delivery and Change)
				Chorley and South Ribble Partnership	Chorley and South Ribble Partnership to identify opportunities to work with partners to deliver outcomes				Workplace Strategy	Delivery of Workplace Strategy action plan to transform to more agile and flexible working	Chris Sinnott (Chief Executive (Chorley and South Ribble))
				Transformation Strategy	Transformation Strategy to identify and deliver new ways of working				ICT Plan	Delivery of ICT Plan to ensure that the right infrastructure and technology is in place to support new ways of working	Emma Marshall (Service Lead - ICT)
				Digital Strategy	Digital Strategy and ICT Programme in place to support new ways of working including flexible and agile working				Reporting and communicating on the Transformation Strategy	To implement a full programme for reporting and communication for transformation programmes to ensure benefits and issues are understood	Vicky Willett (Director Delivery and Change)
				Service Led Improvement Programme	Reviews led by Heads of Service to consider new ways of working tailored				Refresh of the Transformation Programme		Vicky Willett (Director Delivery and Change)
				Workplace Strategy	Workplace Strategy in place to support agile and flexible working						
R5 - Lack of Resources	Lack of resources to deliver the Council's priorities due to public sector funding cuts (financial & staff capacity) or lack of staff capacity and skills (including as a result of issues in relation to recruitment and retention)	Chris Sinnott (Chief Executive (Chorley and South Ribble))	16	Budget investment	Additional budget investment in priorities	9	Risks associated with financial planning & control Risks associated with the recruiting, retaining and motivating staff. Impact on staff being unable to carry out their job Risks relating to operational activity Risks relating to the reputational risks to the Council risks associated with recruiting, retaining and motivating staff & developing skills;	4	People Strategy	Delivery of the People Strategy to identify workforce capacity and skills gaps and ensure that succession planning and service resilience is in place	Vicky Willett (Director Delivery and Change)
				Refreshed Corporate Strategy and service level business plans					SMT to monitor increasing costs	SMT to monitor increasing costs in relation to the Ukraine crisis, energy and inflation	Chris Sinnott (Chief Executive (Chorley and South Ribble))
				Refreshed Medium Term Financial Strategy	Strong MTFS with regular monitoring in place and additional budget investment in priorities				Annual workforce review		Vicky Willett
				Continued organisational development	Continued organisational development programme to identify and act on training and development needs related to staff capacity						
				Transformation Strategy	Transformation Strategy and focus groups to identify and deliver new ways of working to deliver income generation of service efficiencies						

				Resilience from shared services arrangements	Resilience from shared service arrangements to support capacity in shared teams and across the organisation					(Director Delivery and Change)
				Increase in Council Tax 23/24				Roll out of new terms and conditions	The roll-out of new terms and conditions will provide an enhanced offer to staff	Vicky Willett (Director Delivery and Change)
				Consistent process for graduate and apprentices				Transformation programme workstreams for Commercial and Assets	Review of income generation, review of assets and review of commercial portfolio	Vicky Willett (Director Delivery and Change)
				Annual development day				Develop approach to retaining talent		Vicky Willett (Director Delivery and Change)
								Delivery of the Recruitment Strategy		Vicky Willett (Director Delivery and Change)
R6 - Failure to adapt to changing service demand	Failure to react to changing service demand, including any internal skill gaps to address this	Asim Khan (Director (Customer & Digital))	8	System Data	Use of system data and regular monitoring and reporting	6	Risks impacting on the achievement of corporate objectives and priorities Risks associated with technology	4	Implementation of the Digital Strategy	Emma Marshall (Service Lead -
				Volumetric Data Capture	Volumetric data capture				Action to reflect emerging service demand e.g. in relation to the cost of living	Jennifer Mullin (Director of Communities)
				Self Service	Self service capability via council website				Corporate Strategy refresh projects- 'deliver the cost of living action plan' and 'affordable housing acquisition and development'	
				ICT and Digital Strategy	ICT and Digital Strategy to ensure that the right systems and technology are in place to facilitate new ways of working				Provision of government grants including Household Support Fund	
				Transformation Focus Group	Transformation Focus Group to provide opportunity to identify and discuss opportunities for new ways of working to meet changes in service demand					
				Digital inclusion project	Digital inclusion project to support customers with changing services					
				Refreshed HR policies and employee benefits	Refreshed HR policies and benefits package in place to support recruitment and retention in relation to skills gaps					
				People Strategy	People Strategy to identify workforce capacity and skills gaps and ensure that succession planning and service resilience is in place					
R7 - Reduction in Satisfaction with the Council	Reduction in satisfaction with the Council	Chris Sinnott (Chief Executive (Chorley and South Ribble))	6	Customer Service	Strong customer service culture	6	Risks relating to the reputational risks to the Council	4	Customer Access Charter	Asim Khan (Director (Customer & Digital))
				Corporate Health Dashboard	Regular monitoring through the corporate health dashboard				Embed the Customer Access Charter with training to ensure high customer service standards across the organisation and duty officers to ensure that customers can access specialist services	
				Resident Satisfaction Survey	Resident satisfaction survey					
				Customer Satisfaction Survey	Customer satisfaction survey					
				Tangible Improvement Projects in the Corporate Strategy						
				Customer Focus within the Digital and ICT Strategies					Implementation of full omnichannel contact centre functionality	Asim Khan (Director (Customer & Digital))
				Delivery of communications, campaigns and events	This is ongoing, with the delivery of communications, campaigns and events ongoing. Planned approach to communications to ensure plans are in place for major projects.				Full functionality to include new contact channels such as web chat and customer satisfaction survey	

R8 - Reduction in performance	Failure to sustain our performance in light of budget challenges and ongoing resourcing restraints.	Chris Sinnott (Chief Executive (Chorley and South Ribble))	12	Performance management framework	Performance management framework including regular monitoring and reporting to members and SMT and annual refresh of local indicators	6	Risks impacting on the achievement of corporate objectives and priorities Risks associated with the recruiting, retaining and motivating staff. Impact on staff being unable to carry out their job Risks relating to operational activity Risks relating to the reputational risks to the Council	2	Restructure of the Performance and Partnerships team	Performance team restructured to provide a greater emphasis on business partnering and advising service areas on performance management	Vicky Willett (Director Delivery and Change)
				Organisational Development Plan	Organisational Development Plan						
				Refresh of the Transformation Strategy	Transformation Strategy and Transformation Focus Group Forward Plan in place to enable opportunities to improve performance whilst delivering						
				Annual business planning process	Annual business planning process to identify service level priorities and indicators to be measured						
				Benchmarking exercises including LG inform	Benchmarking exercises including LG inform to evaluate performance in relation to other council including identifying local and national trends						
				Project and Performance Leads Network	Network provides training and support to embed the performance framework and ensure high quality data and reporting						
R9 -Not responding to external legislative and policy change	Failure to adapt to external legislative and policy change affecting service delivery.	Chris Sinnott (Chief Executive (Chorley and South Ribble))	8	Credit Union	Credit Union - now fully self-sustaining.	6	Risks relating to operational activity Risks relating to the reputational risks to the Council Risks relating to Legal/Regulatory requirements	4	Continue to engage in plans aligned to Levelling Up		Chris Sinnott (Chief Executive)
				Additional resources dedicated	Additional dedicated resources to reflect new policies and legislation such as Climate Change Programme Officer						
				GDPR Policies in place and DPO role assigned to the Director of Governance							
				BREXIT risk register	Register in place and updated to reflect risks from BREXIT and mitigating actions						
				SMT to monitor policy and legislation change in their areas	SMT to monitor policy and legislation changes in their area, including through the circulation of briefings such as from the LGA and Lawyers in Local Government						
				Training and Development	Learning and development programme and professional subscriptions in place to keep updated in relevant service areas						
R10- Low staff satisfaction & morale	Reduction in staff satisfaction and morale with the Council including increase in sickness absence	Vicky Willett (Director Delivery and Change)	12	OD and Health & Wellbeing programmes	OD and Health & Wellbeing programmes	6	Risks associated with the recruiting, retaining and motivating staff. Impact on staff being unable to carry out their job	3	Service Led Programme to implement the new, better terms and conditions		Vicky Willett (Director Delivery and Change)
				Healthcare cash back scheme	Healthcare cash back scheme						
				Internal communications plan	Internal communications plan						
				Delivery of additional management training	Implementation of Passport to People Management and Flair programmes						
				Continued application of sickness absence policy							
				Health and safety policies							
				Team talk	Team Talk Initiative to support cross team learning and collaboration						
Review of recruitment and onboarding		Vicky Willett (Director)									
Interactive staff experience	Interactive staff experience to support shared culture and recognition of staff	Vicky Willett (Director Delivery and Change)									
Delivery of People Strategy		Vicky Willett (Director Delivery and Change)									

				Staff engagement	Staff engagement including Listening Days, Staff Matters and working groups which aims to ensure staff feel more valued and engaged.						
				Refresh of internal communications strategy							
				Refreshed HR policies	Refreshed HR policies and benefits package in line with shared services to ensure best practice						
				Staff Survey	Staff survey to inform areas for further development						
				Pulse Survey	Regular pulse surveys to monitor staff wellbeing more frequently and identify areas for further development						
				Change Policy and working group	Policy and working group in place to ensure a consistent approach to change						
				Management framework	To ensure consistent approach to line management						
				Relaunch of staff social activities							
R11 - Incidents affecting service delivery	Incidents affecting service delivery/business continuity or even widespread damage, injury or risk to the public.	Chris Sinnott (Chief Executive (Chorley and South Ribble))	12	Business Continuity Plan	Business Continuity Plan in place to outline process in case of incidents	9	Risks impacting on the achievement of corporate objectives and priorities Risks relating to information held	2	Undertake risk exercise	Asim Khan (Director (Customer & Digital))	
				Emergency Plan	Emergency Plan in place to prepare for serious incidents				Monitoring of the Ukraine crisis	SMT are to monitor the impact of the Ukraine crisis on business continuity to identify emerging issues and mitigating actions	Chris Sinnott (Chief Executive (Chorley and South Ribble))
				Flu Pandemic Plan	Country wide flu pandemic plan				Business continuity plans to be embedded on the dedicated system and a testing exercise of plans to be undertaken		Dawn Highton (Shared Service Lead Audit and Risk)
				Multi agency flood plan	Multi agency flood plan						
				Chorley COMAH Plan	Chorley COMAH Plan						
				National, regional and local security plans	National, regional and local security plans						
				Staff awareness	Staff awareness of ICT risks/threats and reporting of any issues						
				Command and Control structure	Command and Control structure in place to ensure clear governance						
				Response to recent rise in UK threat levels							
				Emergency arrangements continue to be in place							
				Continued membership of the PSN network							
				Regular SJCC meetings	Regular meetings with the Union to minimise disruption from actions related to industrial action						
R12 - Damage to Council's reputation	Damage to the council's reputation and potential reduction in resident satisfaction in relation to high profile decision making	Chris Sinnott (Chief Executive (Chorley and South Ribble))	9	Communication and engagement	Communication and engagement with local stakeholders and residents including Communication Plans and Consultation and Engagement Framework to ensure consistent approach	4	Risks relating to the reputational risks to the Council	2	Further embed governance arrangements including through refreshed SLT training	Chris Moister (Director of Governance)	
				Governance arrangements	Governance arrangements and procedures in place to ensure effective governance and decision making				Audit management actions	Delivery of internal audit management actions identified through internal audit reviews	Dawn Highton (Shared Service Lead Audit and Risk)
				Planning Policies	Planning Policies in place to ensure clear guidelines for decisions				Annual Governance Statement actions	Delivery of AGS actions	Chris Moister (Director of Governance)
				Resident and customer satisfaction survey	Monthly monitoring of customer satisfaction levels through surveys						



				Monitoring of social media (comments, threads, themes) respond appropriately and alert where needed							
				Performance Monitoring	Performance monitoring framework in place to identify areas of concern and action plans to address						
				Corporate Strategy	Tangible improvement projects in the corporate strategy						
				Key Contracts and Strategy Partnerships Monitoring	Regular monitoring and governance arrangements with key strategic partners including leisure company and waste contract.						
R13 -Poor relationships between officers and political parties	Failure to build and maintain strong relationships of trust and confidence between officers and each party promote good and open relationships between political parties	Chris Moister (Director of Governance)	6	Meetings with leader/leader of the opposition	Bi-weekly meeting with leader and regular meetings with the leader of the opposition.	2	Risks impacting on the achievement of corporate objectives and priorities	2	World Cafe Event	World Café event for members to meet the Senior Leadership Team	Darren Cranshaw (Shared Service Lead Democratic, Scrutiny and Electoral)
				All party leaders meetings	All party leaders meetings						
				Attendance at political group meetings to address key issues.	Attendance at political group meetings to address key issues.						
				Corporate Strategy development and engagement with political parties	Corporate Strategy reviewed and refreshed annually						
				Member development	Member development programme and development plans to ensure continued development of skills and knowledge						
				Work with political groups to manage change following recent elections							
R14 - Shared Services arrangements	Failure of Shared Services arrangements.	Chris Sinnott (Chief Executive (Chorley and South Ribble))	8	Strategic partnerships framework	Strategic partnerships framework monitors shared services agreement with South Ribble Borough Council	4	Risks associated with financial planning & control Risks relating to the failure of partners/contractors or the contract itself Risks relating to operational activity Risks relating to the reputational risks to the Council	2	Service Development Plans	Service Development Plan to transform the shared ICT and Customer Services to a single operating model to be delivered and monitored through Transformation Focus Group and Shared Services Joint Committee	Vicky Willett (Director Delivery and Change)
				Effective governance arrangements	Effective governance arrangements are in place for the shared services agreement						
				Best practice to shape future services	Use of best practice to shape future services to ensure high performing and successful services						
				SSJC Monitoring	Regular monitoring of shared services through SSJC to identify progress and any issues						
									Progress the future development of shared services following the phase 3 property and assets review	To set out a clear path for the next steps in shared services	Vicky Willett (Director Delivery and Change)
R15- Failure to Act to Address the Impact of Climate Change	Failure to act successfully to meet commitments made by the Council to address climate change, alongside the risk of negative impacts on our communities as a result of the Climate Emergency.	Chris Sinnott (Chief Executive (Chorley and South Ribble))	12	Climate change strategies and action plans in place		9	Risks impacting on the achievement of corporate objectives and priorities Risks related to fire, security, accident prevention & health and wellbeing Risks relating to pollution, noise or energy efficiency	6	Refresh Climate Change Action Plan	Refresh climate change action plan, tailoring against potential external funding	Chris Sinnott (Chief Executive (Chorley and South Ribble))
				Resources for climate change	Resources in place to support delivery against climate change plans through budget setting process and Climate Change officers						
				SLT session held to consider approach to Climate Change							

				Planning Policy	Planning Policy consider environmental impact to minimise impact of new developments, with spatial planning work to improve tree coverage across the borough						
R16 - Failure of ICT Security	Failure of ICT Security to prevent cyber attacks, uphold data protection and maintain ICT service delivery.	Asim Khan (Director (Customer & Digital))	16	Staff awareness of ICT risks/threats and reporting of any issues	Staff awareness of ICT risks/ threats and reporting of any issues including training to refresh knowledge	12	Risks impacting on the achievement of corporate objectives and priorities Risks associated with technology	6	Cyber risk report to be produced	Risk report to be produced to identify current status and improvements to cyber security	Asim Khan (Director (Customer & Digital)) Emma
				Information Security Policies and Procedures	National, regional and local security plans				Cyber security to continue to be monitored in line with the Ukraine crisis including responding to advice from the government	Asim Khan (Director (Customer & Digital)) Emma Marshall (Service Lead - ICT)	
				National, regional and local security plans	Security plans and policies are in place at a national, regional and local level.				ICT Plan	Deliver ICT Plan to ensure infrastructure and technology in place to support security and business continuity	Emma Marshall (Service Lead - ICT)
				Mandatory Information Security Framework training to be completed by all staff					Cyber security training	Delivery of cyber security training to officers and members to highlight risks faced by the council	Emma Marshall (Service Lead - ICT)
									Refresh of information security council terms of reference to ensure clear lines of responsibility	The ISC is made up of the SIRO, DPO and Head of ICT to monitor performance and assess development and training needs. A refresh of it's terms of reference will help to ensure clear responsibilities are in place	Chris Moister (Director of Governance)
R17 - Failure to optimise new options for income generation	Failure to optimise new options for income generation	Chris Sinnott (Chief Executive (Chorley and South Ribble))	12	Corporate Strategy	Corporate Strategy to reflect projects that provide opportunities for income generation	8	Risks associated with financial planning & control	6	Transformation programme workstream for income generation and review of commercial portfolio		Vicky Willett (Director Delivery and Change)

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## Governance Committee Work Programme 2023/24

### 24 May 2023

Report	Officer
Review of the Effectiveness of Internal Audit	Dawn Highton
Audit and Risk Annual Report and Opinion 2022-2023	
External Audit Progress Report	Grant Thornton
External Audit Plan 2022-23	Grant Thornton
Management Response to External Audit Planning Enquiries – 2022-23	Louise Mattinson
Charities and Trust Funds – 2022-23	Louise Mattinson
Draft Annual Governance Statement	Chris Moister

### 2 August 2023

Report	Officer
External Audit Progress Report	Grant Thornton
Treasury Management Outturn 2022-23 and Qtr1 Treasury Monitoring Report 2023-24	Louise Mattinson
CIPFA Audit Committees - Practical Guidance for Local Authorities and Police	Dawn Highton
Chair of Governance Committee Response to External Audit Planning Enquiries	Dawn Highton
Strategic Risk Register	Victoria Willett

### 27 September 2023

Report	Officer
Internal Audit Plan Oct 23 – March 24	Dawn Highton
Audit and Risk Interim Report	Dawn Highton
External Audit Progress Report	Grant Thornton
Draft Core Financial Statements 2022-23	Louise Mattinson

### 29 November 2023

Report	Officer
External Audit Progress Report	Grant Thornton
Statement of Accounts 2022-23	Louise Mattinson



Treasury Management Mid-Year Review 2023-24	Louise Mattinson

**17 January 2024**

<b>Report</b>	<b>Officer</b>
Audit and Risk Interim Report	Dawn Highton
External Audit Progress Report	Grant Thornton
AGS Update	Chris Moister

**13 March 2024**

<b>Report</b>	<b>Officer</b>
Internal Audit Plan April 24 – Sept 24	Dawn Highton
External Audit Progress Report	Grant Thornton