



Carlisle City Council

Report to Audit Committee

Report details

Meeting Date: 8 July 2022
Portfolio: Finance, Governance and Resources
Key Decision: Not Applicable
Policy and Budget Framework: Yes
Public / Private: Public

Title: Technical update and Consultations
Report of: Corporate Director of Finance and Resources
Report Number: RD.21/22

Purpose / Summary:

This report provides the Audit Committee with an update on technical issues and consultations on financial and auditing subjects.

Recommendations:

The Audit Committee is asked to note the update on consultations and technical issues

Tracking

Audit Committee:	8 July 2022
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1. Background

- 1.1 This report aims to provide the Audit Committee with an update on technical issues and external consultations relating to any financial or auditing matter of relevance to the Council.
- 1.2 Although the Council is notified of all consultations issued from, for example, DLUHC or CIPFA, not all consultations will be relevant and there will be occasions where the Council does not wish to respond.

2. Consultations and technical updates

2.1 Updated PWLB guidance

- 2.1.1 HM Treasury issued an update to the Public Works Loan Board (PWLB) lending guidance following the government's introduction of the Bill on Levelling Up and Regeneration. The PWLB guidance has been updated to address lending to authorities where there is a more than negligible risk of non-repayment following on from the publication of a Policy Paper by the Department for Levelling Up, Housing and Communities today (England only).

- 2.1.2 The last PWLB guidance was published in August 2021. The following are new paragraphs added into the 12 May 2022 document which were not in the previous document:

- 13. HM Treasury considers that compliance with the Prudential Framework, including the four statutory codes (and equivalents in Scotland and Wales) generally provides sufficient assurance regarding the risk of non-repayment held by a local authority. As such, a local authority should not expect any change in their ability to access PWLB loans or to the process of applying for a loan unless contacted by HM Treasury regarding specific concerns.
- 14. HM Treasury will continue to work across government to ensure there is adequate monitoring of risk in the local government sector. HM Treasury works with departments across government to monitor financial risk in local authorities, and this ongoing monitoring will be considered alongside any other relevant factors when determining if a local authority is potentially at risk of non-repayment.
- 15. If this monitoring raises particular concerns regarding any local authority, HM Treasury will contact the local authority to begin a period of engagement during which there will be the opportunity to make representations regarding capital spending and debt. HM Treasury will ensure that there is sufficient time for a full investigation, including local authority representations, before taking a view on whether the local authority poses a more than negligible risk of non-repayment and whether that local authority is not adequately taking action that could be reasonably expected to reduce that risk

- 16. HM Treasury will generally consider that where a local authority is actively and constructively engaged with government on addressing financial risk, that local authority is sufficiently managing risk of non-repayment. This includes where a local authority is working with the government as part of ongoing financial support measures. In such cases, HM Treasury will work with the relevant departments to assess any risks to the PWLB.
- 17. During the period of engagement with a local authority, HM Treasury may consider it necessary to take action to protect PWLB resources while balancing the needs of the local authority to manage their financial affairs and delivery of services, such as limiting the loan term length generally offered to the LA in question. HM Treasury would only take a final view on whether to restrict further lending after engagement with that LA.

2.1.3 Implications for the Council

The tightening up of controls around local authority borrowing will need to be considered carefully when assessing whether any borrowing is undertaken to ensure that the Council complies with the revised guidance.

2.2 Capital Investment and Borrowing

2.2.1 DLUHC announced Legislative measures to address excessive risk arising from local authority investment and borrowing, while supporting local freedoms for much needed investment.

2.2.2 The changes will provide the government with the flexibility to directly tackle excessive risk within the local government capital system in England. These powers will allow them to intercede where it is appropriate and necessary to do so based on the government's assessment of risk.

2.2.3 They note there is no one size fits all approach and will continue to have regard to metrics before determining if it is appropriate to use the statutory powers. These will include the following:

- proportionality of debt;
- proportion of capital assets which are investments taken in order to generate net financial return or profit;
- estimates to show the authority is not meeting statutory duty to make sufficient provision to repay debt;
- proportion of debt held where counterparty is not local or government – including credit arrangements and loans;
- further, where there is evidence of financial failure, for instance the issuance of a Section 114 notice, the government will consider the use of these powers where capital practices have been identified as a significant contributing factor.

2.2.4 The update also confirms this is part of a multi action, cross government approach to address risk across the capital system. Further changes being considered are

updates to statutory investment guidance and Minimum Revenue Provision regulations (DLUHC consultation on this issue closed earlier in the year).

2.2.5 Implications for the Council

As above, as the Council has a significant borrowing requirement in its MTFP, the enhanced rules around risk in the capital finance system will need to be carefully considered to ensure compliance and that there is no risk to the delivery of capital programmes.

2.3 Infrastructure Assets

2.3.1 The CIPFA LASAAC Local Authority Code Board has announced an urgent consultation on temporary proposals to update of the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets, particularly Transport infrastructure assets, i.e. roads and highways.

2.3.2 The proposals are intended to address issues raised by auditors in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. The issue arises principally because of information availability, relating to these assets and the difficulty of generating information which is decision useful and meets the needs of accounting standards. There are also related issues for the reporting of gross historical cost and accumulated depreciation.

2.3.3 CIPFA LASAAC and CIPFA's Accounting and Financial Reporting Forum have established a Task and Finish Group to assist with the resolution of this issue and consider the consequences of the proposals.

2.3.4 The issue is a complex, technical accounting issue. Following the advice of the Task and Finish Group, CIPFA LASAAC has proposed a temporary solution, with changes to the code for the reporting including proposals to:

- confirm the accounting consequences of derecognition, i.e. that the effect on the carrying amount is nil (on the presumption that replaced parts are fully depreciated);
- temporarily adapt the code to remove the reporting requirements for gross historical cost and accumulated depreciation;
- provide extra guidance on how depreciation may be applied for infrastructure assets.

2.3.5 This temporary solution will allow CIPFA LASAAC to consult on a longer-term solution later in the year.

2.3.6 Implications for the Council

The Council does not have a significant amount of infrastructure assets where derecognition of part of the asset occurs. The majority of the Council's infrastructure assets have been recorded at historic cost and are depreciated over an assessed useful life. There are very few occasions where additional expenditure is incurred on these assets where derecognition of a worn out/disposed part would need to be considered.

2.4 Government response to local audit framework: technical consultation

- 2.4.1 This response was as an outcome of the 2020 Redmond Review and the recommendation that a 'system leader' should be appointed to ensure a coherent response to challenges that arise in Local Audit. This will be achieved with the establishment of the Audit Reporting and Governance Authority (ARGA), which will be established to replace the Financial Reporting Council.
- 2.4.2 The local audit framework: technical consultation was published in July 2021 and set out the proposals to implement other recommendations from the Redmond Review, namely, the strengthening of Audit Committees, improved capacity and a number of measures relating to smaller bodies.
- 2.4.3 The response to the consultation sets out how the government plans to act in light of the comments received.
- 2.4.4 It confirms that when parliamentary time allows, plans will be made to make audit committees compulsory for all councils, with at least one independent member appointed to each.
- 2.4.5 The following sections are extracts from the response document and detail how the government will respond:
- 2.4.6 System Leader
The government welcomes respondents' support for the creation of a system leader for local audit, the functions they have proposed for the system leader and for these to be underpinned by statutory responsibilities and powers as appropriate. The Government agrees that a systemic approach to challenges facing the local audit system needs to reflect audited bodies' role in the system, so the system leader will need to continue local networks, for example and have a strong understanding of the needs of local bodies.

The government agree that the system leader should work with organisations and sector representatives to resolve or issue direction on issues facing the local audit system, as well as working as a broader advocate. They will consider further the

case for the specific statutory powers the system leader needs as they develop legislation, and outline them in the future draft bill, but currently they do not propose for the system leader to have powers over individual audited bodies.

2.4.7 ARGA's responsibilities and functions as system leader

The government welcome the wide range of views expressed on proposed functions and respondents' strong support of responsibilities which ARGA will have as system leader. They do not agree there is a risk of a single function 'dominating' the system leader; indeed, one of our reasons for choosing ARGA as system leader for local audit has been that it is the only organisation in the current system which already conducts all the functions they think a system needs to have – these include code-setting.

They note the value which stakeholders across the system place on the activities currently conducted by the NAO in support of its code setting function (including responses to public enquiries raised under the 2014 Act). The NAO has confirmed its intention to continue these activities while it remains responsible for code-setting.

The government can confirm that these activities will also be continued once the Code has transferred to ARGA. Some of these activities – such as the Local Auditors Advisory Group and technical networks – would be undertaken directly as part of ARGA's code setting role, or potentially included in practice note 10.

Some other activities – for example, those which involve providing advice and assurance on specific audits which are then reviewed by ARGA – would not be undertaken by ARGA directly. The exact method of delivery for these activities will be considered as part of establishing the new shadow arrangements.

The government welcomes support for a full post-implementation review of the new VfM arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit.

To provide certainty ahead of the next procurement, the government has confirmed the agreement with the NAO and FRC to re-lay the current code so that it will apply until the end of the 2027/28 audit year.

On balance, taking account of the views of respondents, the government agrees that a slightly longer timeframe for the review may be appropriate, both to allow the new arrangements time to bed in and to ensure a sufficient sample size.

Consequently, the government has provisionally agreed with the FRC and NAO that this should be completed within 3 years, building on the ongoing work being undertaken by the NAO. To reflect the expectation of a period of transition, our

expectation is that the wider review will be undertaken with input from both the FRC and NAO, to confirm details in due course.

2.4.8 Expertise and Focus

The government welcomes the support for the development of a dedicated local audit unit within ARGA. The FRC has recently announced the appointment of its new director of local audit, and work is underway to establish the new unit in shadow form.

While recognising concerns about audit capacity, it is critical that the new regulator is furnished with the right expertise from the outset. The government agrees that effective networks will be important to the effective functioning of this system. The government will be working with the FRC to establish these in shadow form from May 2022, to ensure that local bodies and audit firms are involved in the development of the system leader function. Over time this will include taking on responsibility for the current Local Audit Advisory Group; the system leader will want to establish their own strong networks with the various stakeholder groups.

2.4.9 Liaison Committee

The government welcomes the positive response to our proposals for the Liaison Committee.

As set out in the interim system leadership section above, in July 2021 DLUHC established the Liaison Committee as part of its interim system leader role. The positive actions undertaken by the Committee members to date have helped to agree a more collaborative and coordinated response to ongoing timeliness issues, as well as actions to support the procurement for the next appointing period.

As the new local audit shadow unit is established and builds capacity, the FRC will start to assume a greater system leader role. This will include a period of transition during which the FRC will jointly chair the Liaison Committee with the DLUHC. We will work closely with the FRC to fully develop the Liaison Committee during this period, including formalising its structures and membership.

2.4.10 Statutory Local audit objective and regulatory principle

The government welcomes the support for the proposed system leader objective and regulatory principle and confirms the intention to take these forward, along with the other proposed objectives and principles which have been confirmed in the recently published government response to Restoring Public Trust in Audit and Corporate Governance where similar concerns are addressed in detail.

Some respondents expressed a wish for further detail in the objective, but they would note that this will be one of the new regulator's overarching statutory objectives, which are deliberately high-level. Further detail on 'how' these objectives

should be delivered will be set out through other mechanisms, such as the Remit Letter and Memorandum of Understanding; in developing these they will consider respondents' views on what 'effectiveness' means.

They have also noted calls to add an additional system leader quality objective or amend ARGA's other overarching objectives to reference local audit. As the system leadership objective will be one of only 4 overarching objectives the new regulator will have, they are satisfied this strikes a reasonable balance and confirms the high priority local audit will have within ARGA's overall remit.

2.4.11 Governance of ARGA as system leader for local audit

The government welcomes the consultation response and confirms the intention for a discrete Remit Letter from DLUHC's Secretary of State to ARGA at least once during the lifetime of each Parliament. This will cover the government's priorities for local audit for all relevant bodies, meaning it will require close working among all interested departments, to ensure alignment across government.

While some respondents raised concerns about independence, in practice it is an important mechanism for ensuring clarity of strategic objectives and to reflect lines of Ministerial accountability, both on corporate reporting and local audit. The frequency of letters would be at least once a Parliament but could be more often if necessary.

The intention is that during the shadow arrangements before ARGA is established, strategic priorities will be included in a high-level Memorandum of Understanding which will be in place while the FRC is establishing its new unit ahead of taking on full responsibilities.

Other government departments also retain a responsibility where local audit relates to their bodies –for example, the Department of Health and Social Care (DHSC) with health audit – and it will be important to ensure that appropriate lines of accountability are agreed with DLUHC in recognition of this.

2.4.12 The Annual Report

The government welcomes the broad support for this proposal and the key elements they have proposed for the annual reporting process. The Government will work with the FRC to progress this, including taking into consideration the comments of respondents.

2.4.13 Board Membership

The government welcomes the support for this proposal and is fully committed to ensuring that board members have the diverse skills, experience, and knowledge to

provide appropriate scrutiny and challenge to the ARGA executive team, including in relation to its local audit responsibilities.

The Business Secretary recently confirmed four new directors to the FRC Board, to work alongside Sir Jan du Plessis, who has been confirmed as the organisation's new Chairman. These directors have experience across a range of sectors, including Sir Ashley Fox, who served for 8 years as a councillor for Bristol City Council, including as Chairman of the council's Oversight and Scrutiny Committee. These new appointees will complement the existing board members, including the current Chief Executive, Sir Jon Thompson, who was previously Finance Director of North Somerset Council.

BEIS and DLUHC will continue to work together on the criteria for future board appointments ahead of the establishment of ARGA, including the board member who will have specific responsibility for local audit. This process will be enshrined in an MoU between the 2 departments, but they are not minded to create further administrative steps beyond this.

To complement this arrangement, the FRC also plans to appoint a senior advisor drawn from a local audit background. The FRC's senior advisors provide advice, feedback and mentoring and act as sounding boards for ongoing issues and topics.

2.4.14 Funding of ARGA's system leader role

The government welcomes the high level of support for this proposal and confirms its intention for ARGA's local audit functions and responsibilities to be funded directly by the government. Given the nature of the planned arrangement, we do not judge that ring-fencing is necessary.

2.4.15 Appointing person arrangements

It remains the government's view that the current Appointing Person arrangements should remain in place, including separate arrangements for health audit. These arrangements will continue to be kept under review.

The government agrees that it will be vital for the new system leader to collaborate effectively with key partners, including the Appointing Person (PSAA). Over the past 9 months, the Liaison Committee has agreed actions for all parties to support the development of PSAA's strategy for the next procurement. This has included promoting the benefits of the scheme to firms and local bodies, and PSAA and the FRC working together on the methodology for evaluating bids from firms. It will be important for the new system leader to ensure that the Liaison Committee continues to support the Appointing Person throughout the next appointing period and at future procurements.

PSAA has sought to address feedback on its approach to procurement and contract management from audit firms and local bodies in its new procurement strategy, within the scope of its remit. This has included introducing an increased number of lots, a Dynamic Purchasing System and other measures to encourage new firms to enter the market. PSAA has continued to progress its procurement strategy and, following a high number of opt-ins (99% of eligible local bodies) and good feedback from audit firms at the Selection Questionnaire stage, proceeded to issue the Invitation to Tender in April.

In addition, new regulations designed to update and improve the process for the Appointing Person to set fee scales and fee variations came in force on 16 February 2022. They are hopeful that the new regulations will have a positive effect on the fee-setting process through the contract periods.

Over the longer-term, they will continue to review whether the current arrangements are working as effectively as they can and consider whether any further changes to regulations might be necessary.

2.4.16 Enhancing the functions of local audit and the governance for responding to its findings

The government welcomes the strong support for strengthened guidance. The government has fed back the key comment themes to CIPFA, as they developed the guidance further, in consultation with other stakeholders. Government has worked with partners to ensure consultation views are reflected on the composition of the audit committees and its reporting mechanisms which it considers to be a relatively simple and cost-effective step in ensuring transparency across the sector. CIPFA published its Position Statement and supporting guidance in April 2022 which recommends the need for audit committees to be apolitical, for improved preparedness for external audit arrangements, ensuring membership has the right expertise, and reporting and publishing annually on committee effectiveness. This guidance was published in April 2022.

The government accepts there are different perspectives on whether Audit Committees should be a statutory requirement, and notes that fundamentally it is very important that local authorities are able to tailor their structures to local need.

There are, however, benefits to mandating audit committees, including increased transparency and consistency. Redmond found that arrangements for the Police were working effectively, while Major Combined Authorities were also required to have them, making local authorities an anomaly. Strengthened audit committees have also been a key issue in recent Public Interest Reports.

Fundamentally, it is important that councils, as with other public bodies, have appropriate measures in place: the government considers it proportionate to establish a simple principle that local authorities should have an audit committee, with at least one independent member. Mandating for audit committees would ensure widespread take-up, along with improved public accountability.

Consequently, based on the consultation feedback, they will be making Audit Committees, with at least one independent member, a mandatory requirement, once Parliamentary time allows.

They will continue to consult with partners on how this should be implemented. In the intervening period, the government would encourage local bodies to establish their arrangements in line with CIPFA's guidance, including appointing independent members. They are providing £15m per annum to local bodies over the next 3 years to support with increased new burdens from the Redmond Review and increasing audit demands.

The government has also noted the importance of training. To support capability further, government is providing funding via the Local Government Association sector grant, for targeted training events for audit committee chairs and members. The government continues to work with the LGA on expanding their offer during 2022/23.

2.4.17 Auditor Training and Qualifications

The government welcomes the significant interest in widening the pool of Key Audit Partners. To address this, the FRC has consulted on proposals to enable alternative routes to obtain KAP status and allow local audit Recognised Supervisory Bodies' greater discretion in determining suitability of the experience gained by KAP applicants without reducing quality. The FRC consulted on the current guidance in Spring 2022 and plans to publish updated guidance shortly.

Alongside this, the government has considered the case for a new technical advisory service proposal from the working group formed to respond to the Redmond Review. The government will be undertaking a process of pre-market engagement to test appetite ahead of a possible procurement to fund the establishment of this new service. In the longer term, the expectation is that this would need to be funded by firms, provided there is sufficient interest.

It is anticipated that this would support on topics unique to the local government sector. This could be by providing the local audit system with advice and guidance to local auditors on issues responding to electors' objections, how and when to produce a public interest report, performance audit issues (for VfM reporting) and whether an issue identified meets the threshold for issuing a public interest report.

Looking ahead, the government is proposing that, following the outcome of the next local audit procurement, DLUHC will work with the new system leader and one or two of the successful audit firms to develop an industry-led workforce strategy, to consider the future pipeline of local auditors, and associated questions related to training and qualifications. This will form part of the new system leader's broader role in setting out the future priorities for the local audit system.

2.4.18 Implications for the Council

There are likely to be significant changes made to the local audit system in the short term and as these are announced, their impact on the Council will need to be considered.

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

2.5.1 The statement provides an update to the 2018 version and 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.

2.5.2 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.

2.5.3 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.

2.5.4 The position statement sets out:

- The purpose of the Audit Committee
- Independent and Effective model
 - 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
- Core Functions:
 - Maintenance of governance, risk and control arrangements
 - Financial Governance and Reporting
 - Establishing appropriate and effective arrangements for audit and assurance
- Audit Committee Membership
- Engagement and Outputs
- Impact

2.5.6 A full copy of the position statement is given at **Appendix A**

2.5.7 Implications for the Council

The Council has an effective Audit Committee and regularly undertakes and effectiveness review on its capability and compliance with best practice. The revised guidance will be used as the basis for ensuring the Council's Audit Committee continues to provide an effective governance role.

3. **Consultation**

3.1 None

4. **Conclusion and reasons for recommendations**

4.1 The Audit Committee is asked to note the update on consultations and technical issues.

Contact details:

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Appendices attached to report (included in Part B):

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

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - Any legal implications of the consultations in this report will be dealt with as and when they arise.

Property Services - none

Finance - Contained within the report

Equality - None

Information Governance – None

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.