

Audit Committee

31 May 2019

Review of the Audit Committee Terms of Reference and Self-Assessment of Effectiveness



Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To present to members the with the amended Terms of Reference for the Audit Committee for approval.
- 2 Members are also presented with the completed self-assessment of good practice checklist and the Evaluation of Effectiveness of the Audit Committee as prescribed by CIPFA in their document Audit Committees: Practical Guidance for Local Authorities and Police.

Executive Summary

- 3 The CIPFA Publication – Practical Guidance for Local Authorities and Police 2018 Edition sets out its guidance on the function and operation of audit committees in local authorities and police bodies and represents CIPFA’s view of best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.
- 4 Audit Committees are a key component of an authority’s governance framework and provide an independent and high-level resource to support governance and strong public financial management.
- 5 The Committee at its meeting on 26 February 2019 were furnished with a copy of the publication and agreed that the Committees terms of refence would be update in line with the new guidance.
- 6 In addition the guidance required that the Committee complete a self-assessment against the good practice guidance which has been completed in Appendix 3 of this report and evaluate its effectiveness which has been completed in draft at Appendix 4.

- 7 As a result of the self-assessment and evaluation of effectiveness, no significant gaps have been identified however each member of the committee is requested to complete an assessment of core knowledge and skills to ensure the Committee is as effective as possible and identify any future training needs. The assessment is attached at Appendix 5.

Recommendation

- 8 Members are asked to:
- a) Agree the changes to the Committee's Terms of Reference incorporating CIPFA's model Terms of Reference defined in the Practical Guidance for Local Authorities 2018 set out at Appendix 2;
 - b) Recommend that the Council adopt the amended Terms of Reference and delegates authority to the Head of Legal and Democratic Services to make the consequent amendments to the Constitution;
 - c) Note and comment on the Self-assessment of good practice for Audit Committees in Local Authorities illustrated in Appendix 3;
 - d) Note and comment on the evaluation of the effectiveness of the Audit Committee as provided in Appendix 4.
 - e) Complete the core knowledge and skills assessment at Appendix 5 and return it to the Chief Internal Auditor and Corporate Fraud Manager prior to the June meeting.

Background

- 9 The Audit Committee has reviewed its arrangements against previous iterations of CIPFA audit committee guidance, with the most recent assessment taking place in 2013 (at the last release of CIPFA guidance). It is therefore timely that a further self-assessment against the 2018 edition is undertaken.

Background papers

- Audit Committee Report (26 February 2019): Audit Committees: Practical Guidance for Local Authorities and Police 2018
- CIPFA Publication: Audit Committees Practical Guidance for Local Authorities and Police 2018

Other useful documents

- None

Contact: Paul Bradley

Tel: 03000 269645

Appendix 1: Implications

Legal Implications

There are no specific legal implications associated with this report. The Audit Committee contributes to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

Finance

There are no specific financial implications associated with this report. The Audit Committee has a clear terms of reference and directly effects and assists in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational and strategic risks.

Consultation

Chair of the Audit Committee and Corporate Director of Resources

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that the Audit Committee does not continue to comply with relevant and up to date guidance and that its Terms of Reference are inappropriate in order to fulfil its role. To mitigate this risk, relevant updates are presented to the Committee as appropriate.

Procurement

None.

DURHAM COUNTY COUNCIL – AUDIT COMMITTEE

TERMS OF REFERENCE

1. Statement of Purpose

- 1.1 The Audit Committee is a key component of Durham County Council's corporate governance. It provides an independent and high-level focus on audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 1.2 The purpose of our Audit Committee is to provide independent assurance to Cabinet and Full Council over the;
 - a) Adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment.
 - b) Effective stewardship of public money and safeguarding the Council against losses due to fraud and corruption.
 - c) Financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drafting, auditing and certifying the Councils' annual accounts are dealt with properly.
- 1.3 It provides independent review of Durham County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes.
- 1.4 It oversees Internal Audit and External Audit, helping to ensure efficient and effective assurance arrangements are in place.

2. Authority and Governance

- 2.1 The Audit Committee reports to Full Council on audit and governance issues. It has delegated authority to approve the Annual Governance Statement and the Annual Audited Statement of Accounts. The Committee has access to other Committees e.g. Overview and Scrutiny, from which it can gain assurance on the adequacy and effectiveness of the Council's governance arrangements.

- 2.2 The Audit Committee has a reporting line to Cabinet and the Constitution Working Group and makes recommendations on improvements required to the Council's Corporate Governance arrangements. The Chair of the Audit Committee reports on the work undertaken by the Committee to Full Council.
- 2.3 To help maintain its independence, the Audit Committee has the right to meet privately with the External Auditor and the Chief Internal Auditor and Corporate Fraud Manager as considered necessary.
- 2.4 The Audit Committee can request employees, elected members, partners, contractors and the public to attend meetings in order to seek information and explanations as is considered necessary to fulfil its role.

3. Composition

- 3.1 The membership of the Audit Committee shall comprise of nine Members of the Council and two co-opted non-voting members.
- 3.2 A quorum of three elected members (including the Chair or Vice Chair) is required for decisions of the Committee to be ratified.
- 3.3 The Chair of the Audit Committee will be independent of the Executive and will not be the chair of a Scrutiny Committee or the Standards Committee.

4. Terms of Reference

Governance, Risk and Control

- 4.1. To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of corporate governance.
- 4.2 To review and endorse the Council's Local Code of Corporate Governance prior to consideration by the Constitutional Working Group and approval by Full Council.
- 4.3 To review and approve the Annual Governance Statement (AGS) and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk, management and control.

- 4.4 To consider the Council's arrangements to secure Value for Money and review assurances and assessments on the effectiveness of these arrangements.
- 4.5 To consider the Council's framework of assurance and ensure it adequately addresses the risks and priorities of the Council.
- 4.6 To monitor the effective development and operation of risk management in the Council.
- 4.7 To monitor progress in addressing risk-related issues reported to the Committee.
- 4.8 To consider reports on the Council's Health, Safety and Wellbeing performance and receiving assurance from management that the Council is not exposed to significant risk.
- 4.9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 4.10 To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- 4.11 To monitor the counter-fraud strategy, actions and resources.
- 4.12 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

- 4.13 To approve the Internal Audit Strategy and Charter.
- 4.14 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.
- 4.15 To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.
- 4.16 To make appropriate enquiries of both management and the Chief Internal Auditor and Corporate Fraud Manager to determine if there are any inappropriate scope or resource limitations.

- 4.17 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of Internal Auditing of the Chief Internal Auditor and Corporate Fraud Manager. To approve and periodically review safeguards to limit such impairments.
- 4.18 To consider reports from the Chief Internal Auditor and Corporate Fraud Manager on Internal Audit's performance during the year. These will include;
- a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP).
 - c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough that it must be included in the AGS.
- 4.19 To consider the Chief Internal Auditor and Corporate Fraud Manager's annual report;
- a) 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.
 - b) 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.
- 4.20 To consider summaries of specific Internal Audit reports as requested.
- 4.21 To receive reports outlining the action taken where the Chief Internal Auditor and Corporate Fraud Manager 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.
- 4.22 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.
- 4.23 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.

- 4.24 To provide free and unfettered access to the Audit Committee Chair for the Chief Internal Auditor and Corporate Fraud Manager, including the opportunity for a private meeting with the committee.

Counter Fraud and Corruption

- 4.25 To review and approve the Counter Fraud Strategy and considering whether it meets recommended practices alongside approving the Council's Sanctions Policy.
- 4.26 To review and approve the Council's Confidential Reporting Code (Whistleblowing).
- 4.27 Championing good counter fraud and anti-corruption practice to the wider organisation.
- 4.28 Reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and the local community.
- 4.29 Reviewing the Counter Fraud Plan of activity and resource, seeking assurance that it is in line with the strategy and fraud risk profile.
- 4.30 To review and approve the Council's Anti Money Laundering Policy.
- 4.31 Monitoring the performance of the Corporate Fraud Team.
- 4.32 Overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

External Audit

- 4.33 To support the independence of External Audit through consideration of the External Auditor's annual assessment of its independence and review any issues raised by Public Sector Audit Appointments (PSAA).
- 4.34 To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
- 4.35 To consider specific reports as agreed with the External Auditor.
- 4.36 To comment on the scope and depth of External Audit work and to ensure it gives value for money.
- 4.37 To commission work from Internal and External Audit.
- 4.38 To advise and recommend on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

Financial Reporting

- 4.39 To approve accounting policies, the approach to accounting estimates and the 'going concern' assertion.
- 4.40 To review the Annual Outturn Report and Treasury Management Outturn Report to consider how they might impact on the statement of accounts.
- 4.41 To review and approve the annual statement of accounts. Specifically, to consider whether appropriate 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.
- 4.42 To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability Arrangements

- 4.43 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.
- 4.44 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 purposes.
- 4.45 To publish an annual report on the work of the committee.

5. Meetings

- 5.1 The Audit Committee will meet at least four times a year. Meetings will be open to the public, but they may be excluded where information of an exempt or confidential nature is being discussed.
- 5.2 In order to maintain independence, the Chief Internal Auditor and Corporate Fraud Manager is the nominated lead officer for the Committee and will hold pre-agenda meetings with the Chair and Vice-Chair and will attend every meeting (or arrange a deputy).
- 5.3 The Corporate Director of Resources (Section 151 Officer) and the Head of Legal and Democratic Services (Monitoring Officer) as statutory officers are key to the Council's corporate governance and either they or a nominated deputy will attend each meeting.

- 5.4 A standard item will be added to each committee agenda for the Committee to be given the opportunity to discuss any exceptional items in private at the end of the meeting with Internal and External Audit.

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, then 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 can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

| Good practice questions | | Yes | Partly | No | Comments |
|---|---|-----|--------|----|----------|
| Audit committee purpose and governance | | | | | |
| 1 | Does the authority have a dedicated audit committee? | X | | | |
| 2 | Does the audit committee report directly to full council? | X | | | |
| 3 | Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's position statement? | X | | | |
| 4 | Is the role and purpose of the audit committee understood and accepted across the authority? | X | | | |
| 5 | Does the audit committee provide support to the authority in meeting the requirements of good governance? | X | | | |
| 6 | Are the arrangements to hold the committee to account for its performance operating satisfactorily? | X | | | |
| Functions of the committee | | | | | |
| 7 | Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? | | | | |
| | ■ good governance | X | | | |
| | ■ assurance framework, including partnerships and collaboration arrangements | X | | | |

| Good practice questions | | Yes | Partly | No | Comments |
|-------------------------|---|------------------|--------|----|---------------------------------------|
| | ■ internal audit | X | | | |
| | ■ external audit | X | | | |
| | ■ financial reporting | X | | | |
| | ■ risk management | X | | | |
| | ■ value for money or best value | X | | | |
| | ■ counter fraud and corruption | X | | | |
| | ■ supporting the ethical framework | X | | | |
| 8 | Is an evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas? | X | | | |
| 9 | Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them? | X | | | |
| 10 | Where coverage of core areas has been found to be limited, are plans in place to address this? | | | X | No issues with coverage of core areas |
| 11 | Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose? | X | | | |
| 12 | Has an effective audit committee structure and composition of the committee been selected? This should include ■ seperation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) | X X X X | | | |

| Good practice questions | | Yes | Partly | No | Comments |
|---------------------------------------|--|-----|--------|----|--|
| 13 | Have independent members appointment to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation? | X | | | |
| 14 | Does the chair of the committee have appropriate knowledge and skills? | X | | | |
| 15 | Are arrangements in place to support the committee with briefings and training? | X | | | |
| 16 | Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory? | | | X | Members requested to complete skills framework document |
| 17 | Does the committee have good working relationships with key people and organisations, including external audit, internal audit and the CFO? | X | | | |
| 18 | Is adequate secretariat and administrative support to the committee provided? | X | | | |
| Effectiveness of the committee | | | | | |
| 19 | Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work? | | X | | Report issued to Council annually. Verbal feedback is received. Comments minuted in Council meeting records. |
| 20 | Are meetings effective with a good level of discussion and engagement from all the members? | X | | | |
| 21 | 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? | X | | | |
| 22 | Does the committee make recommendations for the improvement of governance, risk and control and are these acted on? | X | | | |
| 23 | Has the committee evaluated whether and how it is adding value to the organisation? | X | | | Evaluation of effectiveness also attached to this report. |

| Good practice questions | | Yes | Partly | No | Comments |
|-------------------------|--|-----|--------|----|----------|
| 24 | Does the committee have an action plan to improve any areas of weakness? | | X | | |
| 25 | Does the committee publish an annual report to account for its performance and explain its work? | X | | | |

Evaluating the effectiveness of the the audit committee

Assessment key

- | | |
|---|--|
| 5 | Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable. |
| 4 | Clear evidence from some sources that the committee is actively and effectively supporting improvements across some aspects of this area. |
| 3 | The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps. |
| 2 | There is some evidence that the committee has supported improvements, but the impact of this support is limited. |
| 1 | No evidence can be found that the audit committee has supported improvements in this area. |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 - 1 See key above |
|--|---|---|---|
| Promoting the principles of good governance and their application to decision making | <ul style="list-style-type: none"> ■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships | The local code of governance is reviewed at Audit Committee. The AGS is also reviewed in draft prior to its inclusion in the Statement of Accounts. Internal Audit reviews of governance arrangements are completed regularly as part of the risk based plan. No formal work with partner audit committees takes place. | 4 |
| Contributing to the development of an effective control environment | <ul style="list-style-type: none"> ■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers | Recommendations from auditors are monitored regularly. Managers are called as appropriate to discuss findings and recommendations with the Committee and significant concerns are raised with managers accordingly. | 5 |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 - 1 See key above |
|---|--|---|---|
| Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks | <ul style="list-style-type: none"> ■ Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks | Risk management arrangements are reviewed regularly and improvements in reporting have been made over the past 24 months in terms of transparency e.g. Emergent Risks and the timeliness of reporting. | 4 |
| Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively | <ul style="list-style-type: none"> ■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers e.g. internal audit, risk management, external audit | The local code of governance sets out where the committee will gather its assurance in terms of developing the Annual Governance Statement. Any gaps are identified at this stage. Wherever possible assurance is streamlined. The committee then review the effectiveness of assurance when reviewing the draft Annual Governance Statement prior to inclusion within the Statement of Accounts | 5 |
| Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence | <ul style="list-style-type: none"> ■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit | The committee review the audit charter and strategy annually. The assessment of internal audit arrangements are reviewed annually and the last external assessment was completed in 2016 which was reported to the committee. The committee provide constructive challenge and support improvements, the quality assurance and improvement plan targets are reported quarterly in progress reports and in Internal Audit's annual report. | 5 |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 - 1 See key above |
|--|--|--|---|
| Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance risk, control and assurance arrangements | <ul style="list-style-type: none"> ■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements | <p>Governance arrangements are reviewed via the Annual Governance Statement Process. Sources of assurance include directors assurance statements and Internal Audit reviews. Major Projects are included in these areas and Internal Audit provide advice and consultancy by sitting on relevant project boards it is essential therefore that managers include Internal Audit on all major projects. Any governance issues would be picked up as part of their 'continuous audit' process. Performance Management is reviewed across the Internal Audit plan and reported on an annual basis. The audit is called Data Quality however testing exists in most audits to ensure performance management across the authority is robust.</p> | 5 |
| Supporting the development of robust arrangements for ensuring value for money | <ul style="list-style-type: none"> ■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS | <p>Value for money is assessed by both Internal and External Audit. External Audit specifically deliver an assurance opinion on value for money as part of the annual audit process. This and Internal Audit's work throughout the year form part of the assurance for the AGS</p> | 5 |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 - 1 See key above |
|--|--|--|---|
| Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks | <ul style="list-style-type: none"> ■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for staff | <p>The Council's Corporate Fraud team is seen as an exemplar nationally and the standards set out in the Code of Practice are fulfilled. The corporate fraud team report bi-annually and the effectiveness of the strategy is reviewed. The Corporate Fraud Team work closely with Internal Audit and any issues of ethical governance are promptly reported. The Chief Internal Auditor sees all customer complaints, HR reports (Grievance and Disciplinary) and whistleblowing referrals. In addition Internal Audit carry out periodic reviews of the Council's Gifts and Hospitality arrangement and complete the National Fraud Initiative checks on employees acting as directors of companies etc.</p> | 5 |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 - 1 See key above |
|--|---|---|---|
| Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability | <ul style="list-style-type: none"> ■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee | <p>The committee meets in public with only reports exempt from public discussion that are presented in private. Plain English is used throughout reports with jargon kept to a minimum. An annual report from the committee is published and presented at Full Council. Any decision made through partner organisations where there is an impact on the committee's business will be brought to the committee however at present there has not been a need for this to happen therefore can not be evidenced.</p> | 4 |

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 | Yes | No | Partly | Comments |
|------------------------------------|--|---|-----|----|--------|----------|
| Organisational knowledge | <ul style="list-style-type: none"> ■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority | <ul style="list-style-type: none"> ■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers | | | | |
| Audit Committee role and functions | <ul style="list-style-type: none"> ■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee | <ul style="list-style-type: none"> ■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others | | | | |
| Governance | <ul style="list-style-type: none"> ■ Knowledge of the seven principles of the CIPFA / SOLACE Framework and the requirements of the AGS ■ Knowledge of the local code of governance | <ul style="list-style-type: none"> ■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance | | | | |

| Knowledge Area | Details of core knowledge required | How the audit committee member is able to apply the knowledge | Yes | No | Partly | Comments |
|-------------------------------------|---|---|-----|----|--------|----------|
| Internal Audit | <ul style="list-style-type: none"> ■ An awareness of the key principles of the PSAIA and the LGAN ■ Knowledge of the arrangements for delivery of the Internal Audit service in the authority and how the role of the head of internal audit is fulfilled | <ul style="list-style-type: none"> ■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan. | | | | |
| Financial management and accounting | <ul style="list-style-type: none"> ■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA 2016). | <ul style="list-style-type: none"> ■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS | | | | |

| Knowledge Area | Details of core knowledge required | How the audit committee member is able to apply the knowledge | Yes | No | Partly | Comments |
|-----------------|---|---|-----|----|--------|----------|
| External audit | <ul style="list-style-type: none"> ■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken | <ul style="list-style-type: none"> ■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service | | | | |
| Risk Management | <ul style="list-style-type: none"> ■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee | <ul style="list-style-type: none"> ■ In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice | | | | |

| Knowledge Area | Details of core knowledge required | How the audit committee member is able to apply the knowledge | Yes | No | Partly | Comments |
|---------------------------|--|--|-----|----|--------|----------|
| Counter Fraud | <ul style="list-style-type: none"> ■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation's arrangements for tackling fraud | <ul style="list-style-type: none"> ■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment | | | | |
| Values of good governance | <ul style="list-style-type: none"> ■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority | <ul style="list-style-type: none"> ■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported | | | | |

CORE SKILLS

| Skills | Key Elements | How the audit committee member is able to apply the skill | Yes | No | Partly | Comments |
|---|---|---|-----|----|--------|----------|
| Strategic thinking and understanding of materiality | <ul style="list-style-type: none"> ■ Able to focus on material issues and overall position, rather than being side tracked by detail | <ul style="list-style-type: none"> ■ When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail | | | | |
| Questioning and constructive challenge | <ul style="list-style-type: none"> ■ Able to frame questions that draw out relevant facts and explanations ■ Challenging performance and seeking explanations while avoiding hostility or grandstanding | <ul style="list-style-type: none"> ■ 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 weakness and ensure a solution is found | | | | |
| Focus on improvement | <ul style="list-style-type: none"> ■ Ensuring there is a clear plan of action and allocation of responsibility | <ul style="list-style-type: none"> ■ The outcome of the audit committee 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, then the audit committee should seek assurances that appropriate action has been taken | | | | |
| Able to balance practicality against theory | <ul style="list-style-type: none"> ■ Able to understand the practical implications of recommendations to understand how they might work in practice | <ul style="list-style-type: none"> ■ The audit committee should seek assurances that planned actions are practical and realistic | | | | |

| Skills | Key Elements | How the audit committee member is able to apply the skill | Yes | No | Partly | Comments |
|--|---|---|-----|----|--------|----------|
| Clear communication skills and focus on the needs of users | <ul style="list-style-type: none"> ■ Support the use of plain English in communications, avoiding jargon, acronyms, etc. | <ul style="list-style-type: none"> ■ The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience | | | | |
| Objectivity | <ul style="list-style-type: none"> ■ Evaluate information on the basis of evidence presented and avoiding bias or subjectivity | <ul style="list-style-type: none"> ■ The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views | | | | |
| Meeting management skills | <ul style="list-style-type: none"> ■ Chair the meeting effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting | <ul style="list-style-type: none"> ■ 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 | | | | |