

Evaluating the Effectiveness of the Audit Committee

Appendix 1 Audit Committee Members Assessment – Knowledge and Skills Framework

(Based on Appendix C of CIPFA’s “Audit Committees - Practical Guidance for Local Authorities and Police”)

Completed by Tracy Henderson DCC Chief Internal Auditor and Corporate Fraud Manager 16 May 2022

Knowledge Area	Details of core knowledge required	How the Audit Committee member is to apply the knowledge/training need	Yes	No	Partly	Comment
Organisational Knowledge	<ul style="list-style-type: none"> An overview of the governance structures of the organisations and decision-making processes. Knowledge of the organisational objectives and major functions of the organisations. 	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.	Yes Yes			Committee considers a wide range of activities including those linked to organisational objectives, functions and governance. Several members have been in place for several years . they also have prior knowledge of public sector governance.
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. 	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.	Yes		Yes	Audit Committees: Practical Guidance for Local Authorities and Police 2018 Report considered meeting April 2019 Committee Knowledge, purpose and Terms of Reference considered at a training event in May 2019. Terms of Reference revised as a result and are brought back to the Committee on a regular basis for approval. New Member benefited from refresher training provided on 10 May 2022
Governance	<ul style="list-style-type: none"> Knowledge of the seven principles of the CIPFA/Solace Good Governance 	The committee will review the local code of governance and	Yes			The Committee reviewed the local code of governance as part

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	<p>Framework and the requirements of the Annual Governance Statement (AGS).</p> <ul style="list-style-type: none"> • Knowledge of the local code of governance. 	<p>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.</p> <p>The committee will review the AGS and consider how the authority is meeting the principles of good governance.</p>				<p>of its work programme for 2021/2022</p> <p>The Committee receives assurances from the wide range of reports it receives from officers and both internal and external audit.</p> <p>The Committee reviews the AGS in Draft and Final formats and receives progress updates on actions raised within the governance action plan.</p> <p>Members benefited from refresher training provided on 10 May 2022</p>
Internal Audit	<ul style="list-style-type: none"> • An awareness of the key principles of the Public Sector Internal Audit Standards and the Local Government Application Note. • Knowledge of the arrangements for delivery of the internal audit service in the organisations and how the role of the head of internal audit is fulfilled. 	<p>The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards</p> <p>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</p> <p>In relying on the work of internal audit, the committee will need</p>	Yes			<p>The Committee received a report from the Chief Internal Auditor which outlined the key principles of PSIAS and the LGAN.</p> <p>The Committee will receives an Annual Report and Opinion from the Chief Internal Auditor and an Annual Effectiveness Report which identifies how the Internal Audit Service has conformed with professional standards.</p> <p>The external assessment was undertaken in 2022 and the</p>

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		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.				outcome will be reported within the above reports for 2021/22.
Financial management and accounting	<ul style="list-style-type: none"> • Awareness of the financial statements that the local organisations 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 chief financial officer, as required by the Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of the Chief Financial Officers in Policing (2018) 	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	Yes			Review of financial statements is part of the Terms of Reference for the Committee. The Committee receives financial reports from the Joint CFO and the External Audit report and opinion. The Committee considers the role of the Joint CFO and Safeguarding Protocol on an annual basis . Members benefited from refresher training provided on 10 May 2022
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. 	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	Yes		Yes	The Committee considers the Audit Strategy Memorandum and regular progress reports and Annual report from External Audit.

Knowledge Area	Details of core knowledge required	How the Audit Committee member is to apply the knowledge/training need	Yes	No	Partly	Comment
	<ul style="list-style-type: none"> Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken. 	between the external auditor and the authority and support the delivery of an effective service.				Arrangements for appointment of External Audit are considered at the appropriate time.
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. 	<p>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</p> <p>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</p> <p>Typically risk registers will be used to inform the committee</p> <p>The committee should also review reports and action plans to develop the application of risk management practice</p>	Yes		Yes	<p>Committee receives regular reports for consideration from Force and OPCC with respective risk registers.</p> <p>Robustness of risk management arrangements is considered as part of AGS discussion.</p> <p>New Member benefited from refresher training provided on 10 May 2022</p> <p>Committee receives reports which include an overview of the relevant risks. There is adequate scrutiny of reports to ensure that risks are raised and considered.</p>
Counter-fraud	<ul style="list-style-type: none"> An understanding of the main areas of fraud risk the organisation is exposed. Knowledge of the principles of good fraud risk management in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) 	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	Yes		Yes	The Committee receives an Annual report from the Chief Internal Auditor outlining the work the service has undertaken in year considering Force / OPCC fraud risk management framework and associated

Knowledge Area	Details of core knowledge required	How the Audit Committee member is to apply the knowledge/training need	Yes	No	Partly	Comment
	<ul style="list-style-type: none"> Knowledge of the organisation's arrangements for tackling fraud. 	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				<p>documents and including examples, as applicable, of where fraud has been identified in specific categories such as payroll, procurement, expenses, flexitime abuse etc. The Committee also receives from Internal Audit, the outcome from the NFI exercise which is undertaken every 2 years.</p> <p>The Committee receives reports from Force Professional Standards.</p> <p>New Member benefited from refresher training provided on 10 May 2022</p>
Values of good governance	<ul style="list-style-type: none"> Knowledge of the Seven Principles of Public Life. Knowledge of the organisation's key arrangements to uphold ethical standards for both members and staff. Knowledge of the whistleblowing arrangements in the organisations. 	<p>The audit committee member will draw on this knowledge when reviewing governance issues and the AGS</p> <p>Oversight of the effectiveness of whistleblowing will be considered as part of the AGS.</p> <p>The audit committee member should know to whom concerns should be reported.</p>	Yes		Yes	<p>Seven Principles of Public Life are referenced in the Internal Audit Charter.</p> <p>Periodic reports received from Officers and internal Audit in relation to Ethical Standards and whistleblowing arrangements.</p> <p>Members benefited from refresher training provided on 10 May 2022</p>
Treasury Management	<ul style="list-style-type: none"> Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangement for undertaking scrutiny of treasury 	Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny	Yes			Member Training events and Treasury Management Update Reports

Knowledge Area	Details of core knowledge required	How the Audit Committee member is to apply the knowledge/training need	Yes	No	Partly	Comment
	<p>management. The key knowledge areas identified are:</p> <p>Regulatory requirements</p> <ul style="list-style-type: none"> ○ Treasury risks ○ The organisation's treasury management strategy ○ The organisations policies and procedures in relation to treasury management. 					Members benefited from refresher training provided on 10 May 2022

Skills Area	Key Elements	How audit committee member is able to apply the skill	Yes	No	Partly	Comment
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 	When reviewing audit reports, findings will include areas of higher risk or materiality 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	Yes			Audit Committee receives a copy of all Limited Opinion Internal Audit reports for consideration and a quarterly progress update on any audit actions that have not been implemented in accordance with agreed timescales.
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 	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	Yes			Audit Committee Members challenge and seek responses to any perceived issues they may have or where further clarification is required.

Skills Area	Key Elements	How audit committee member is able to apply the skill	Yes	No	Partly	Comment
Focus on improvement	<ul style="list-style-type: none"> Ensuring there is a clear plan of action and allocation of responsibility 	<p>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.</p> <p>Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken</p>	Yes			Audit Committee Members challenge and seek responses to any perceived issues they may have or where further clarification is required.
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 	The audit committee should seek assurances that planned actions are practical and realistic	Yes			Audit Committee questions officers about progress made in delivering planned actions according to timescale.
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. 	The audit committee will seek to ensure that external documents as the AGS and the narrative report in the accounts are well written for a non-expert audience.	Yes			Audit Committee comments upon Force / PCC documentation that is to be made available externally such as the AGS.
Objectivity	<ul style="list-style-type: none"> Evaluate information on the basis of evidence presented and avoiding bias or subjectivity. 	The audit committee will receive of 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	Yes			Audit Committee members are objective in their thinking and willing to discuss differences of opinion.
Meeting management skills	<ul style="list-style-type: none"> Chair the meetings effectively summarise issues raised, ensure all participants are 	These skills are essential for the audit committee chair to help ensure that meetings stay on	Yes			As nominated Chair of the Committee from October 2020 when the previous Chair retired

Skills Area	Key Elements	How audit committee member is able to apply the skill	Yes	No	Partly	Comment
	able to contribute focus on the outcome and actions from the meeting.	track and address the items on the agenda. The skills are desirable for all other members				and with a range of experience in Chairing meetings in a number of other organisations I represent, I have consciously looked to facilitate discussion through encouraging all members to participate which I consider they look to do.

Appendix 2

Self-Assessment of Good Practice During 2021/22

(Based on Appendix D of CIPFA's "Audit Committees - Practical Guidance for Local Authorities and Police")

Completed by Joint CFO Mr Gary Ridley, Mr Charles Oakley and Durham County Council Chief Internal Auditor and Corporate Fraud Manager Miss Tracy Henderson

Good practice questions	Yes	Partly	No	Comment
Audit Committee Purpose and Governance				
1. Do the organisations have a dedicated audit committee?	X			
2. Does the audit committee report directly to full council? (local government only).	N/A	N/A	N/A	
3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	X			ToR revised July 2020 to reflect CIPFA position statement
4. Is the role and purpose of the audit committee understood and accepted across the organisations?		X		Understood by those Officers / Staff who report to / support Committee
5. Does the audit committee provide support to both organisations in meeting the requirements of good governance?	X			
6. Are the arrangements to hold the committee to account for its performance operating satisfactorily?	X			External audit, internal audit and the Committee Chair also periodically attend Executive Board where they can discuss relevant issues.
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 partnership and collaboration arrangements	X			
• Internal Audit	X			
• External Audit	X			
• Financial Reporting	X			
• Risk Management	X			
• Value for Money (VfM) or Best Value	X			

Good practice questions	Yes	Partly	No	Comment
<ul style="list-style-type: none"> Counter-fraud and corruption 	X			
<ul style="list-style-type: none"> Supporting the ethical framework 	X			
8. Is an annual 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			Annual Review of ToR Annual Review of System of Internal Audit Joint Audit Committee Annual Report
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?	N/A	N/A	N/A	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			
Membership and Support				
12. Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> separation 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			
13. Have independent members appointed to the committee been recruited in an open and transparent way and approved by the PCVC 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		Initial assessment in 2018/19, extended in 2019/20 and reviewed at Member training event April 2021 and again at May 2022 where Members requested to complete own skills framework document

Good practice questions	Yes	Partly	No	Comment
17.Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer (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			
20.Are meetings effective with a good level of discussion and engagement from all 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 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			Joint Audit Committee Annual Report
24.Does the committee have an action plan to improve any areas of weakness?	X			Joint Audit Committee Annual Report
25.Does the committee publish an annual report to account for its performance and explain its work	X			Joint Audit Committee Annual Report

Appendix 3

Evaluating the Effectiveness of the Audit Committee

(Based on Appendix E of CIPFA's "Audit Committees - Practical Guidance for Local Authorities and Police")

Completed by CEO Mrs Sharon Caddell, Joint CFO Mr Gary Ridley, Mr Charles Oakley and Durham County Council Audit Manager Miss Tracy Henderson on 25th March 2021 who assessed each area providing a score from 1 to 5 in accordance with the following assessment criteria:

Reviewed by Stephen Carter DCC Interim Chief Internal Auditor and Corporate Fraud Manager 23 April 2021

5	Clear evidence available from numerous sources that committee is actively supporting improvements across all aspects of area. 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 to Add Value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples of areas of strength and weakness	Overall Assessment Score 1-5
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 	Review of the local code of governance. Review of the Draft AGS 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. Senior Officers provide confirmation of action taken / planned where concerns exist.	5
Supporting the establishment of arrangements for the governance	<ul style="list-style-type: none"> • Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. • Monitoring improvements 	Risk management arrangements for both the PCVC and Constabulary are reviewed on a regular basis.	5

Areas to Add Value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples of areas of strength and weakness	Overall Assessment Score 1-5
of risk and for effective arrangements to manage risks.	<ul style="list-style-type: none"> • Holding risk owners to account for major/strategic risks 	Emerging issues reported by Joint CFO as part of update process.	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<ul style="list-style-type: none"> • Specifying assurance needs, identifying gaps or overlaps • Seeking to streamline assurance gathering and reporting • Reviewing the effectiveness of assurance providers e.g. internal audit, risk management, external audit. 	Review of the local code of governance and Annual Governance Statement.	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 	Annual review of the audit charter and strategy. Annual review of the assessment of internal audit arrangements. Provision of constructive challenge and support for improvements. Review of Quality Assurance and Improvement Plan targets via quarterly progress reports and Internal Audit's annual report.	5
Aiding the achievement of the organisation'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 	Governance arrangements are reviewed via the Annual Governance Statement Process. Red Sigma / Capital programme updates provided as part of Joint CFO budget reporting arrangements. Performance Management forms part of the strategic internal audit plan coverage, however, testing exists in most audits to ensure performance management is robust.	4
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 	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	5

Areas to Add Value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples of areas of strength and weakness	Overall Assessment Score 1-5
		throughout the year form part of the assurance for the AGS	
Helping the organisations 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 	Internal Audit undertakes an Annual Review of Fraud and Corruption arrangements as outlined within its Annual Report. This incorporates the outcomes of each National Fraud Initiative exercise and work undertaken with Professional Standards identifying any investigations they have undertaken against a range of qualifying criteria. Internal Audit includes within its strategic plan reviews under a heading of Ethical Governance which includes reviews of Member Expenses, Gifts and Hospitality, Force PDR arrangements and Complaints.	4
Promoting effective public reporting to the organisation's stakeholders and local community and measures to improve transparency and accountability.	<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency.</p> <p>Publishing an annual report from the committee.</p>	<p>The committee meets in private with reports being exempt from public discussion. Minutes of each meeting are however displayed on the PCVC website.</p> <p>An annual report from the committee is published on the PCVC website.</p>	3 (Upgrade to 4 if OPCC promotes meeting with staff, partners and public).

