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NOTICE OF MEETING

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AUDIT AND GOVERNANCE COMMITTEE

will meet on

MONDAY, 9TH NOVEMBER, 2020

At 6.15 pm

by

VIRTUAL MEETING - ONLINE ACCESS ON [RBWM YOUTUBE](#)

TO: MEMBERS OF THE AUDIT AND GOVERNANCE COMMITTEE

COUNCILLORS CHRISTINE BATESON (CHAIRMAN), LYNNE JONES (VICE-CHAIRMAN), JULIAN SHARPE, JOHN STORY AND SIMON WERNER

SUBSTITUTE MEMBERS

COUNCILLORS SIMON BOND, JOHN BOWDEN, WISDOM DA COSTA, GREG JONES AND SHAMSUL SHELM

Karen Shepherd – Head of Governance - Issued: 30th October 2020

Members of the Press and Public are welcome to attend Part I of this meeting. The agenda is available on the Council's web site at www.rbwm.gov.uk or contact the Panel Administrator **Mark Beeley** 01628 796345 / mark.beeley@rbwm.gov.uk

Recording of Meetings – In line with the council's commitment to transparency the Part I (public) section of the virtual meeting will be streamed live and recorded via Zoom. By participating in the meeting by audio and/or video, you are giving consent to being recorded and acknowledge that the recording will be in the public domain.

If you have any questions regarding the council's policy, please speak to Democratic Services or Legal representative at the meeting.

AGENDA

PART I

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MEMBERS' GUIDE TO DECLARING INTERESTS IN MEETINGS

Disclosure at Meetings

If a Member has not disclosed an interest in their Register of Interests, they **must make** the declaration of interest at the beginning of the meeting, or as soon as they are aware that they have a DPI or Prejudicial Interest. If a Member has already disclosed the interest in their Register of Interests they are still required to disclose this in the meeting if it relates to the matter being discussed.

A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in the discussion or vote at a meeting.** The speaking time allocated for Members to make representations is at the discretion of the Chairman of the meeting. In order to avoid any accusations of taking part in the discussion or vote, after speaking, Members should move away from the panel table to a public area or, if they wish, leave the room. If the interest declared has not been entered on to a Members' Register of Interests, they must notify the Monitoring Officer in writing within the next 28 days following the meeting.

Disclosable Pecuniary Interests (DPIs) (relating to the Member or their partner) include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any licence to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where:
 - a) that body has a piece of business or land in the area of the relevant authority, and
 - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

Any Member who is unsure if their interest falls within any of the above legal definitions should seek advice from the Monitoring Officer in advance of the meeting.

A Member with a DPI should state in the meeting: ***'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Or, if making representations on the item: ***'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Prejudicial Interests

Any interest which a reasonable, fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs the Member's ability to judge the public interest in the item, i.e. a Member's decision making is influenced by their interest so that they are not able to impartially consider relevant issues.

A Member with a Prejudicial interest should state in the meeting: ***'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Or, if making representations in the item: ***'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Personal interests

Any other connection or association which a member of the public may reasonably think may influence a Member when making a decision on council matters.

Members with a Personal Interest should state at the meeting: ***'I wish to declare a Personal Interest in item x because xxx'. As this is a Personal Interest only, I will take part in the discussion and vote on the matter.***

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Agenda Item 3

AUDIT AND GOVERNANCE COMMITTEE

MONDAY, 14 SEPTEMBER 2020

PRESENT: Councillors Christine Bateson (Chairman), John Bowden, Lynne Jones (Vice-Chairman), Julian Sharpe and Simon Werner

Also in attendance: Councillors Gurpreet Bhangra, Simon Bond, Jon Davey, David Hilton, Andrew Johnson, Helen Price, Samantha Rayner, Shamsul Shelim and Donna Stimson

Officers: Mark Beeley, David Cook, Catherine Hickman, Andrew Moulton, Russell O'Keefe, Barbara Richardson, Duncan Sharkey, Adele Taylor and Andrew Vallance

APOLOGIES FOR ABSENCE

Apologies were received from Councillor Story, Councillor Bowden attended the meeting as substitute.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

DRAFT STATEMENT OF ACCOUNTS

Adele Taylor, Director of Resources, explained that the accounts included the period up until 31st March 2020. The report gave an indication of where RBWM was, while the accounts had been published on the website since early August so that the public could inspect them. Deloitte, the external auditors, had also provided an update at the end of the report.

Andrew Vallance, Head of Finance, said that RBWM had been rated to provide high quality services whilst providing one of the lowest council tax bands outside London. Overspend was mainly due to parking shortages and a decline in parking income, while revenue and benefits had overspend due to Covid and the need for additional housing benefits. There had been an increased cost of temporary accommodation and RBWM had received grants totalling £8 million, with around £1 million of this being used to cover the costs of Covid. In the general fund, money was moved from the budget into the reserves, RBWM had to take money out of the reserves last year to balance the budget.

On the expenditure statements, there had been a revaluation as there had been a change in the fair value of investment properties. Every three years, the pension fund was reviewed and this year the fund had been reviewed; there was a slight improvement as a result. Short term borrowing had increased to cover and fund the capital programme while there had been a positive increase in cash flow, which had increased to over £7 million.

Councillor L Jones raised a number of points, she said that in the report it was claimed that 74% residents were satisfied but the last survey was conducted in 2018. There was lot of narrative about the 19/20 financial year, but she was interested to know how RBWM would have got to this point without Covid. She asked how much the grant was and how this had affected cash flow. Councillor Jones noted that RBWM was its own insurer and whether this meant that the figures detailing this in the report were a risk. Councillor Jones also queried about risk assessments; how each risk was managed, the processes and procedures, and how does a risk come about.

Adele Taylor said that she would check the date regarding the resident satisfaction survey. For Covid, it was about understanding the impact and the need to identify the significant effects it would have on future finances. The Medium Term Financial Plan was being revised and once this was complete it would form part of the accounts. There were a number of claims outstanding on the insurance but RBWM would not necessarily pay out in these areas. An item on Risk Management would be coming to the next meeting of the Audit and Governance Committee.

Andrew Vallance said that RBWM had insurance for high value losses, which did defer some risk. Ruth Watkins, Chief Accountant, said that the first Covid grant had been received in-year, with £1.8 million of that grant being spent.

Adele Taylor said that revaluations happened on a regular basis and that she would be happy to do a briefing note on how revaluations worked.

Councillor L Jones asked if it would also be possible to have a note on RBWM waste and also if Panel members were able to see the accounts before they were published.

Councillor Sharpe asked what checks were in place to ensure that improvements were happening.

He was informed that budget monitoring reports would be going to Cabinet regularly and officers would be looking at ways to improve how the accounts were presented as they wanted them to be as easy to understand and accessible as possible. Corporate Overview and Scrutiny would see the progress being made on the CIPFA action plan. Adele Taylor passed on her thanks to the team who had put together the Statement of Accounts for all their hard work. She also thanked the external auditors for their work and the robust working relationship.

Councillor Shape further asked if officers were receiving information in a timely manner and on a regular basis. Adele Taylor said that they were and that she hoped that officers would providing the information to Members in a good way.

Councillor Werner said that Covid was an issue for the last month of the accounts but formed a big part of them. He was interested to know what position the accounts would be in without the impact of Covid. The new waste contract had recently been implemented and there had been a number of issues, but Councillor Werner did not believe this had been reflected in the accounts. Savings were required as there were no reserves after last year's budget and three blank boxes were part of the report, he asked if they would have been negative figures. Regarding the budget, he said that it was a 'big mountain' to sort and asked if officers felt that the levels proposed were achievable.

Adele Taylor said that the blank boxes were due to the Medium Term Financial Strategy being revised and that the updated version would be included in the final accounts. It was not going to be easy to find savings but a comprehensive spending review would be happening to see where these savings could happen. Regarding the waste contract, Adele Taylor said that she could not comment on the contract but it fell under the current financial year and the accounts that the Committee were looking at were for the previous financial year.

Councillor Bhangra joined the meeting.

Councillor Price said that she understood the RBWM Property Company was not included in the accounts as it was its own separate subsidiary. She said that she did not understand why investment income from the company was not part of the RBWM accounts.

Adele Taylor explained that the property company was separate and had its own set of accounts as a result. Regarding the question of why it was not part of the accounts, she said

that it depended on the size of the company and RBWM Property Company did not have a high enough turnover to be part of the accounts.

Councillor Hilton, Lead Member for Finance and Ascot, said that Covid costs had been offset at the start of the year. Financial difficulties were mostly associated with the loss of income but he believed that without the impact of Covid, the financial position of RBWM would be better.

Councillor L Jones disagreed with these comments and said that she did not think RBWM would have been in a good position, it would be in a better position but she would not regard it as good.

The Committee then considered the update from the external auditors on the accounts. Jonathan Gooding, Deloitte, explained that the audit was ongoing with the deadline set for completion by the end of November. A good proportion of the work had been completed, but the pension fund side was less progressed as there had been issues receiving information due to the current situation.

Councillor L Jones said that Committee members needed to have training around the pension fund as she did not know where to go when she required some answers on this area. Adele Taylor said that training or a briefing on the pension fund could be provided.

Councillor Hilton said that a paper would be coming to the next Berkshire Pension Fund Panel. Councillor Sharpe, who chaired the Panel, said that it would be good to understand more about the pension fund, how it works and also how it was governed.

Councillor Bowden asked if the pension fund was amalgamated. Councillor Hilton explained that there were two schemes, with the Berkshire pension fund managed by LPB.

Councillor Rayner, Deputy Leader of the Council and Lead Member for Resident & Leisure Services, HR, IT, Legal, Performance Management & Windsor, said that there were 30 to 40 funds with outstanding queries and asked if this was normal.

Jonathan Gooding said that it was a combination of factors that had caused this, he had hoped that progress would be further than what it is but outstanding issues would be completed within the next few weeks.

RESOLVED UNANIMOUSLY; That the Audit and Governance Committee noted the report.

2019/20 AUDIT AND INVESTIGATION ANNUAL REPORT

Andrew Moulton, Assistant Director of Governance at Wokingham Borough Council, explained that the report would normally come earlier in the year but it was important to consider with the accounts. There was a shared audit service between RBWM and WBC, which provided audit services across the two councils. Andrew Moulton hoped for a positive relationship with the committee so that the service could continually improve.

Catherine Hickman, Lead Specialist Audit and Investigation, explained that the report summarised the work of the Shared Audit and Investigation Service (SAIS) for the 2019/20 financial year. The purpose of the report was for the Head of Internal Audit to report annually on the council's internal control framework. The report summarised the key headlines arising from work during the year and Appendix A(I) listed the audits undertaken to form the overall opinion, the position of the audits at 31 March, the audit opinions given and with those audits falling into the second lowest category of audit opinion being summarised in the main report. Catherine Hickman summarised the work of investigations which included a successful proactive Business Rate/Exemption Relief exercise where over £174k was identified as being billable to the charge payer. A recent Regulation of Investigatory Powers Inspection by the Investigatory Power's Commissioners Office resulted in a positive outcome for the council. A

review of the SAIS's conformance with their professional body's Public Sector Internal Audit Standards (PSIAS), undertaken by CIPFA in 2018 resulted in the Service achieving the highest category of opinion and this had been maintained through annual self-assessments against the Standards. The recommendation for members to consider was to note the progress that had been made in achieving the 2019/20 Audit and Investigation Plan.

A resident had requested to speak on the item. Mr Hill noted that there had no instances of fraud or irregularity but asked what would a member of staff or resident do if they suspected fraud.

Catherine Hickman explained that there was a whistleblowing process in place which was there to be used if it was needed.

Councillor L Jones asked if there was a timetable for the actions that were outstanding on full compliance with the PSIAS. Regarding the audit plan, she asked if it was the right mix and also questioned a number of deferments that were stated in the report and the reason for them.

Catherine Hickman said that there was an action plan produced each year with regard to the PSIAS through an annual self-assessment process, and Andrew Moulton added that the Committee may want to consider an item on compliance as part of their Work Programme.

Councillor Price said that one of the key implications of the report was that there was confidence that public funds were being used effectively. She believed that this had not happened and asked what lessons had been learnt by the shared audit service.

Andrew Moulton said that the team were committed to learning and wanted the service to provide reassurance to both members and residents. Adele Taylor said that the new Audit and Governance Committee had been created to provide the assurances that members were looking for and would allow members to feel like they had the chance to part of the audit plan and process.

Councillor Rayner said that it was a robust report and said that as resources had been reduced a number of audits had been deferred. Andrew Moulton said that the expectation was to have it complete on time but Covid delayed the report. The next item on the agenda looked at this year's audit plan and showed that the teams capacity was being used in the best way possible.

RESOLVED UNANIMOUSLY; That the Audit and Governance Committee noted:

- i) The SAIS activity for the financial year end 31 March 2020**
- ii) Progress in achieving the 2019/20 Internal Audit and Investigation Plan**

2020/21 AUDIT AND INVESTIGATION PLAN - IN YEAR REVIEW

Andrew Moulton explained that the committee had an opportunity to shape the work of the team as the 2021/22 plan would be coming to the committee for consideration early next year.

Catherine Hickman said that the 2021/21 audit plan was approved by the Corporate Overview and Scrutiny Panel in February 2020. With Covid having an impact this plan had been put forward to refocus audit and investigation activity over the remainder of the financial year. The report contained the original plan along with the revised areas, and the team were seeking approval from the Committee for the revised plan.

Councillor L Jones said that there were deferments of key partners detailed in the plan and believed that their viability could be a risk. She wanted to understand the decision making process which led to a deferral.

Catherine Hickman said that if the Committee felt that the team had not got the right balance then this was their opportunity to be involved in the process.

Councillor Sharpe said that the Serco contract needed to be reviewed by internal audit.

Catherine Hickman said that all these areas could be taken into account but if new audits were to be added into the plan, then other audits would need to be taken out as the team are working within their capacity.

Councillor Hilton said that to him the deferrals made sense, the CIPFA report that was brought to Corporate Overview and Scrutiny had an action plan in place.

Adele Taylor said that officers would be able to take away the suggestions from the Committee.

A named vote was taken to approve the plan along with the suggestions that the Committee had made to officers on the revised plan.

RESOLVED UNANIMOUSLY; That the Audit and Governance Committee approved the updated 2020/21 Audit and Investigation Plan.

VALUATION OF THE NICHOLSON'S CENTRE

Russell O'Keefe, Executive Director – Place, said that members had requested this item on the Nicholson's Shopping Centre valuation was added to the agenda. RBWM owned approximately 50% of the freehold on the centre site. In 1985 RBWM let a 150 year lease on its freehold, because of the terms of that lease in addition to the poor performance of shopping centres over the last few years the ground rent the Council had received on that lease had been very poor including as low as zero in recent years. In regards to the lease over the Council's part of the freehold and the freehold on the rest of the site (the other approximately 50%) that had changed hands a number of times. In February 2019, Tikehau Capital in partnership with Areli Real Estate purchased the lease that the Council originally let in 1985 and the other half of the freehold that the Council does not own from the receivers of the previous owners. The lease that was originally let includes the ability for the person who holds the lease to redevelop the site without approval being unreasonably withheld by the freeholder (the Council on its part of the site). That ability to not unreasonably withhold approval is as the Council as a freeholder, that does not affect its ability as a planning authority. The Council also owned a building called Central House, which was a vacant 1970s office building, the Council bought back the leasehold in 2017 for approximately £2.5 million. This was done to facilitate the redevelopment of the car park and regeneration of the surrounding area.

Following negotiations with Tikehau Capital and Areli Real Estate and the relevant approvals the Council entered into a conditional sale agreement with their company called Denhead for the sale of its freehold interest in the shopping centre site, (the part they didn't own as they already had a long lease over the Council's freehold and the other half of the freehold), and also Central House. That was for a combined fee of £6 million (£1 million for the Council's part of the freehold for the shopping centre and £5 million for Central House). Those negotiations and that decision were informed by an independent valuation, a section 123 report, carried out by Lambert Smith Hampton. That was to ensure the Council got best consideration for its interests.

A valuation was carried out by another set of surveyors, called Knight Frank, which was referenced in the planning information submitted by Denhead, the company owned by Tikehau and Areli, as part of the financial viability assessment. That valuation was an existing use valuation that covered the shopping centre as a going concern, the whole site including the lease the Council let in 1985 as well as the freehold they had already bought from the receivers. In regards to the Council's interests they were valued by the section 123 report by Lambert Smith Hampton which values the Council's interest not the rest of the site and

interests. From what the Council had seen of the Knight Frank valuation it was in line with the Lambert Smith Hampton valuation. The two valuations were valuing different elements, one was valuing the whole site as a going concern, the valuation by Knight Frank, whereas the Council's valuation carried out by Lambert Smith Hampton was just valuing the Council's interest in the site.

A member of the public had requested to speak on the item. Mr Hill noted that the valuation document was not included as part of the report for the meeting and asked if all members were given the valuation document at the time, along with the final contract that was entered into. He also noted that the original valuation on the freehold was 0.75m to £1 million, but in the Council report it expressed a value of £1-2m so therefore asked if Lambert Smith Hampton revised their valuation. The life span of Central House was originally listed as 'at least 50 years', but the report referred to 40 years. The decision was not on the Cabinet Forward Plan as a key decision. Mr Hill asked whether the different valuations raised the prospect of state aid issues. He asked about Denhead Sarl which were not referred to in the public report and whether it could have increased risks. Valuations had been requested on the current site and future development potential, as this was when the site became very valuable. However, the valuator did not include the potential valuation in their report and so how could the Council be sure that they had not triggered state aid limits. He went on to say the rental income on the lease the Council received was around £200-300k per year.

Russell O'Keefe said that the Council's ground rent that it received under that long lease was based on a percentage of the overall income generated by the centre and it had not been at the figures Mr Hill was referencing for quite a number of years, with all payments being well under £100,000 a year for some years due to terms the Council entered into in 1985 and the poor performance of the centre. The section 123 report set out a very poor outlook for this for the future. The existing use valuation was carried out by Denhead, RBWM got a market valuation which looked at existing use and development potential, a section 123 report. As the Council got a section 123 report to ensure it got best consideration for its interest there could be no issue with state aid as it was a market value. The report went to Full Council and all members got a copy of the section 123 report, it was one of the appendices to the report which informed the decision, along with a copy of the head of terms which informed the future contract RBWM entered into. The building life span of Central House was 40-50 years.

Mr Hill further asked for clarification on whether LSH asked the Council to change the valuation from less than £1 million to between £1-2 million. He was informed that they did not, the section 123 report was with the report with the full methodology.

Councillor L Jones asked if a market valuation considered development potential, and if the contract would be made public, with confidential elements redacted, once signed.

Russell O'Keefe confirmed a market valuation considered existing use and development potential. Regarding the contract, if the conditional contract was completed and became unconditional then some of that information would be able to be published but some of the information would remain Part II.

Councillor Werner asked what alternative strategies were looked at for the site, with RBWM having ownership of Central House, and could therefore have been given more control over the future of the site.

Russell O'Keefe said that alternative strategies were considered, for example there could have been a joint venture which RBWM would have been involved in but this would have likely involved the Council putting significant amounts of money at risk. The conditional land sale agreement meant that the Council was not exposed to significant risk as a result.

Councillor L Jones asked if RBWM took the offer with best value in mind as people were looking for reassurance.

Russell O’Keefe confirmed that the Council decision was taken on the basis of a section 123 report, which was an independent valuation to demonstrate the Council achieved best consideration, in line with the legal requirements for property and land sales.

WORK PROGRAMME

Adele Taylor said that the Redmond Review had been recently published, which was a review on local authorities internal and external audit. It had also been suggested that an update on the internal audit action plan could be added to the programme. Adele Taylor said that agenda balancing would be looked at as the programme for the November had a significant number of items.

Councillor Price said that as the RBWM Property Company was only incorporated once it was a certain size that it may be something the committee would want to look at later in the year. Adele Taylor said that in the CIPFA action plan this was mentioned and was therefore something that Corporate Overview and Scrutiny could pick up.

Councillor Sharpe said that the Fraud Policies Refresh item could be moved to February along with the Key Risk Report. The Chairman said that officers would go away and look at the agenda for November.

The meeting, which began at 6.15 pm, finished at 8.50 pm

CHAIRMAN.....

DATE.....

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Report Title:	Mid Year Treasury Management Update 2020/21
Contains Confidential or Exempt Information?	No - Part I
Lead Member:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Audit and Governance Committee – 9 November 2020
Responsible Officer(s):	Adele Taylor, Director of Resources (S151151 Officer)
Wards affected:	All

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REPORT SUMMARY

1. The purpose of this report is to:

- a) Update Members on the delivery of the Treasury Management Strategy approved by Council on 25th February 2020 and allows for any changes to be made depending on market conditions;
- b) This report forms part of the monitoring of the treasury management function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice which requires that the Council receives a report on its treasury management activity at least twice a year;

Specifically this report includes:

- a) a review of the Council's financial investment portfolio for 2020/21 as at 30th September 2020;
 - b) a review of the Council's borrowing strategy in 2020/21;
 - c) a review of compliance with the Council's Treasury and Prudential limits for the first 6 months of 2020/21; and
 - d) an economic update for the first half of the financial year. (Appendix C)
2. The Council has complied with all elements of its Treasury Management Strategy Statement (TMSS) as agreed by Council in February 2020.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Audit and Governance Committee notes and approves the mid-year Treasury Management Update Report 2020/21.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management mid-year and annual reports.
- 2.2 The Council's treasury management strategy for 2020/21 was approved at the Council meeting on 25th February 2020. When borrowing and investing money the Authority is exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

3. KEY IMPLICATIONS

- 3.1 A successful treasury management approach will ensure the security of the Council's assets whilst meeting the liquidity requirements of the Council and ensuring an investment return that meets the target set in the table below.

Table 1: Investment return target

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
A return that exceeds benchmark (Bank of England base rate plus 0.25%)	<0%	>0%	>0.1%	>0.2%	31 March 2021

4. FINANCIAL DETAILS / VALUE FOR MONEY

Half-yearly Review of Treasury Management Activity

- 4.1.1 This report reviews the period from 1st April 2020 to 30th September 2020.
- 4.1.2 An economic update for the period provided by the Council's treasury management advisors Arlingclose is attached as Appendix C.
- 4.2 **Investments**
- 4.2.1 The Council receives payments from a variety of external sources, including government grants, council tax and business rates. These funds are invested in either fixed rate loans, cash deposits or money market funds within Council approved counterparties. The list of approved counterparties is known as the "Lending List". A copy of the current approved Lending List is attached to this report as Appendix A.
- 4.2.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return. The Council's objective when investing money is to strike an appropriate balance between risk and return,

minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 4.2.3 Whilst total funds under management varied throughout the period, total funds under management at the 30th September 2020 were £22,382,000. (£51,726,000 at 31st March 2020).
- 4.2.4 It should be noted that during the period central government provided government grant funding in advance to assist with potential cashflow issues arising from Covid-19. There was a likelihood of unexpected calls on cash flow to deal with the impacts of the crisis so the Council has kept more cash available at very short notice than is normal. Liquid cash was diversified between multiple counterparties to minimise counterparty risk.
- 4.2.5 The returns available for liquid cash held in Money Market Funds or call accounts have moved towards zero over the period which has lowered the overall return on the Council's investments.
- 4.2.6 The allocation of funds under management by counterparty type at 30th September 2020 is as follows:

Lloyds Current Account	£3,140,000
Money Market Funds	£13,000,000
Loans to partner organisation	£6,242,000
Total	£22,382,000

- 4.2.7 The investment return benchmark is 0.25% above Bank of England base rate. The Bank of England base rate is currently 0.10%.
- 4.2.8 The investment return for the 6 months to 30th September 2020 was 0.36% compared to the benchmark of 0.35%.
- 4.2.9 In 2020/21 we have made an upfront prepayment of Pension Fund contributions for 2020/21 that has reduced the overall costs by £108,000. This amount is not included in the investment return reported above but it contributes towards budget targets.

4.3 Borrowing Requirement & Borrowing Strategy

- 4.3.1 The table below shows how the level of long and short term borrowing is projected to change during 2020/21.

Borrowing Type	Actual 31/03/2020	Actual 30/09/2020	Projected 31/03/2021
	£000	£000	£000
Long Term	57,049	57,049	57,049
Short Term – Local Authority	134,000	82,000	161,000
Short Term – LEP	33,521	68,584	0
Investments	(51,726)	(22,382)	(20,000)
Net Borrowing	172,844	185,251	198,049

- 4.3.2 The above table projects that the Council will need to borrow an additional £79,000,000 from Local Authorities by 31st March 2021 to finance its capital investment and to replace internally borrowed funds held on behalf of the LEP (Local Enterprise Partnership).
- 4.3.3 This projection is based on the following assumptions:
- (i) The capital programme will be implemented in line with current assumptions – if there is any further slippage within the programme then the short-term borrowing requirement will be lower.
 - (ii) The LEP will utilise all of their funding in year which the Council will need to borrow to replace. If there are any unspent funds retained by the LEP at the end of March this would reduce the amount of replacement borrowing required to be taken out with other local authorities.
- 4.3.4 The Council's borrowing requirement has revenue implications for the Council. Accordingly, the Council has engaged Treasury Management Advisors, Arlingclose to advise on its Borrowing and Treasury Management Strategy.
- 4.3.5 Current market conditions are as follows:-
- (a) In response to the economic effect of the Covid-19 crisis interest rates have been reduced to the historic low level of 0.1%.
 - (b) Pending the outcome of the PWLB consultation the PWLB certainty borrowing rate remains at its increased rate of 1.8% above gilts making it a relatively expensive option.
 - (c) Short term loans remain at a significantly lower rate than long term loans.
- 4.3.6 On the basis of the above, the Council has continued to take up short term borrowing when required and continues to review the option to increase the proportion of long term borrowing with its treasury management advisors.
- 4.3.7 No new long term borrowing has been taken on since the 1st of April 2020 as the current PWLB and other market alternative rates are unfavourable compared to those offered for the short term. This is kept under regular review.
- 4.3.8 As at 30th September 2020 the Authority's total long term external borrowing was £57,049,400, with an average interest rate of 4.97% for the Public Works Loan Board (PWLB) loans and 4.19% for the Lender Option Borrower Option (LOBO) loans borrowed from Barclays and Dexia. Appendix B shows the breakdown of this long term borrowing figure. During the course of 2020/21 a total of £2,733,000 will be paid on existing long term loans in the form of interest payments.
- 4.3.9 The Chancellor's March 2020 Budget statement included changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. It contained proposals to allow authorities that are not

involved in “debt for yield” activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield.

- 4.3.10 In response to these proposed changes the Council has reviewed its current capital programme and is satisfied that it is not engaged in any projects that would lead it to be classified by the PWLB as engaging in debt for yield activity. Therefore based on the information provided as part of the consultation if lower rates are introduced the Council would expect to be able to access these. While this would be expected to give the Council access to long term borrowing at lower rates than are currently available it likely these will still be significantly higher than the current short term rates that are available.
- 4.3.11 The strategy to increase short-term borrowing has exposed the council to the risk that rates could rise. A 1% increase in interest rates for the current level of short-term loans could be in the region of £1m.
- 4.3.12 Officers will therefore keep under review options to increase the proportion of its borrowing that is fixed long-term during 2020/21 including reviewing options within the market.

4.4 Treasury Management Strategy

- 4.4.1 The Treasury Management Strategy approved on 25th February 2020 sets out parameters that are designed to govern the level of council borrowing.
- (i) **The operational boundary** – sets the maximum level of borrowing that the Council will incur based on its estimated need to finance its capital investment. It is recognised that the Council may borrow in excess of this amount for cash flow purposes i.e. while it waits to receive government grants or other significant income. The limit for 2020/21 is £252,000,000.
 - (ii) **The authorised limit** – is an absolute limit and sets the absolute maximum level of borrowing that the council can undertake and cannot be exceeded in the short term. The limit for 2020/21 is £275,000,000.
- 4.4.2 The Council has remained within these approved borrowing limits during 2020/21.
- 4.4.3 The Council’s upper limit for the proportion of its borrowing that is exposed to variable interest rates is 80%. The Council has remained within this limit during 2020/21 with the actual proportion forecast to be 74% at 31st March 2021.

LEGAL IMPLICATIONS

- 4.5 In producing and reviewing this report the Council is meeting legal obligations to properly manage its funds.

5. RISK MANAGEMENT

Risks	Uncontrolled Risk	Controls	Controlled Risk
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council	MEDIUM	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly.	LOW
That funds are invested in fixed term deposits and are not available to meet the Council's commitment to pay suppliers and payroll.	MEDIUM	A cash flow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the Council's commitment to pay suppliers and payroll.	LOW

6. POTENTIAL IMPACTS

- 6.1 Equalities. None identified.
- 6.2 Climate change/sustainability. None identified.
- 6.3 Data Protection/GDPR. None identified.,

7. CONSULTATION

- 7.1 Not applicable

8. TIMETABLE FOR IMPLEMENTATION

- 8.1 This section is not applicable.

9. APPENDICES

This report is supported by three appendices:

- Appendix A – Approved Lending List
- Appendix B – Long Term Borrowing at 30th September 2020
- Appendix C – Economic Update

10. BACKGROUND DOCUMENTS

- Not applicable

11. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance and Ascot	23/10/20	
Duncan Sharkey	Managing Director	23/10/20	
Russell O'Keefe	Director of Place	23/10/20	
Adele Taylor	Director of Resources and S151 Officer	23/10/20	27/10/20
Elaine Browne	Head of Law	23/10/20	28/10/20
Nikki Craig	Head of HR, Corporate Projects & ICT	23/10/20	27/10/20
Louisa Dean	Communications	23/10/20	
Kevin McDaniel	Director of Children's Services	23/10/20	27/10/20
Hilary Hall	Director of Adults, Commissioning & Health	23/10/20	26/10/20
Karen Shepherd	Head of Governance	23/10/20	26/10/20
Andrew Vallance	Head of Finance	23/10/20	23/10/20
Mary Severin	Monitoring Officer	23/10/20	28/10/20

REPORT HISTORY

Decision type: No	Urgency item? No	To Follow item? No
Report Author: Ryan Stone, Accountant		

APPENDIX A

Royal Borough of Windsor & Maidenhead Approved Counterparty Lending List

<u>Fitch Ratings</u>	FITCH ShortTerm Rating	FITCH Long Term Rating	FITCH Outlook	Max. Sum To Be Lent £m
<u>UK</u>				
<u>Government</u>				
Debt Management Office	F1+	AA-	Negative	no limit
<u>Banks</u>				
Australia and New Zealand Bank	F1	A+	Negative	5
Barclays Bank	F1	A	Negative	5
Clydesdale Bank	F2	A-	Negative	5
HSBC	F1+	AA-	Negative	5
Lloyds Banking Group	F1	A+	Negative	7.5
National Australia Bank Ltd	F1	A+	Negative	5
Royal Bank of Canada	F1+	AA	Negative	5
Royal Bank of Scotland	F1	A	Negative	5
Santander UK	F2	A-	Negative	5
Standard Chartered	F1	A	Negative	5
Ulster Bank	F1	A+	Negative	5
<u>Local Authorities</u>				
All UK Local Authorities, with the exception of those with reported financial irregularities.				5
<u>Money Market Funds</u>				
All money market funds with a Fitch AAA long term credit rating, including:				
Federated Short Term Sterling Prime Fund		AAA		5
Invesco Sterling Liquidity Fund		AAA		5
Aberdeen Sterling Liquidity Fund		AAA		5
Insight GBP Liquidity Fund		AAA		5
LGIM Sterling Liquidity Fund		AAA		5
<u>Revolving Credit Facility</u>				
AFC				11.7
<u>Financial Services Companies</u>				
Kames Capital				1
Legal & General				1.5
<u>RBWM associated companies</u>				
Flexible Home Improvement Loans Ltd				0.5
RBWM Property Company Ltd				1.5
<u>Charitable Trusts</u>				
Leisure Focus Trust				0.35

SHORT TERM RATING

Expectation of timely repayment of financial commitments.

F1+ is most likely to repay on time, **F1** Highest Credit, **F2** Good, **F3** Fair, **B** Speculative, **C** High Default Risk

LONG TERM RATING

Expectation of credit risk. **AAA** is the least risky, ie little credit risk. **AA** Very High Credit, **A** High, **BBB** Good.

Below BBB indicates non-investment grade

Appendix B - Long Term Borrowing

Long Term Borrowing at 30th September 2020

PWLB Borrowing		
Duration/ Type	Repayment Date	Loan Value £000s
25yrs/Maturity	25/09/21	785
25yrs/Maturity	08/06/29	7,500
26yrs/Maturity	25/09/29	2,500
26yrs/Maturity	23/09/30	10,000
25yrs/Maturity	08/12/30	5,000
30yrs/Maturity	25/09/33	5,000
45yrs/Maturity	08/12/50	5,000
45yrs/Maturity	08/12/50	5,000
60yrs/Maturity	25/03/55	1,600
60yrs/Maturity	25/09/55	1,000
60yrs/Maturity	25/03/56	400
60yrs/Maturity	25/09/56	265
Total Fixed Term Borrowing		44,049

ANALYSIS OF PWLB RESIDUAL MATURITY at 30.9.20		
Maturing Within	Amount £000s	Average Rate
1 Year	785	8.000%
1 to 2 Years	0	0.000%
2 to 5 Years	0	0.000%
5 to 10 Years	20,000	4.950%
10 to 15 Years	10,000	4.475%
15 to 20 Years	0	0.000%
20 to 25 Years	0	0.000%
25 to 30 Years	0	0.000%
30 to 35 Years	11,600	4.741%
35 to 40 Years	1,665	8.240%
40 to 45 Years	0	0.000%
TOTAL	44,049	4.966%

LOBO Borrowing			
	Duration/ Type	Repayment Date	Loan Value £000s
Barclays	60yrs/15yrs fixed, 6mth LOBO	19-Jul-66	5,000
Dexia	35yrs/5yrs fixed, 5yr LOBO	26-Jan-43	8,000
Total Fixed Term Borrowing			13,000

ANALYSIS OF LOBO RESIDUAL MATURITY at 30.9.20		
Maturing Within	Amount £000s	Average Rate
5 to 30 Years	8,000	4.190%
30 to 55 Years	5,000	4.190%
TOTAL	13,000	4.190%

Mid-year Economic Update from the Authority's Treasury Management Advisors Arlingclose

External Context

Economic background: The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

Financial markets: Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks

including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June-September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

Credit review: Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

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Report Title:	Draft Treasury Management Strategy & Prudential Indicator Report 2021/22
Contains Confidential or Exempt Information?	No - Part I
Member reporting:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Audit and Governance Committee – 9 November 2020
Responsible Officer(s):	Adele Taylor - Section 151 Officer
Wards affected:	All

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REPORT SUMMARY

1. In accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2017 and the CIPFA Prudential Code, the Council is required to approve a Treasury Management Strategy before the start of each financial year. This report fulfils that obligation.
2. The Treasury Management Strategy 2021/22 as set out in section 4 of this report has been written to comply with the CIPFA Code of Practice. It sets out the parameters for the Council's planned treasury management activity.
3. The Council's self-imposed limits on sustainable, affordable and prudent borrowing and investment, and the Prudential Indicators that need to be approved by Full Council, are set out in Appendix B.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Audit and Governance Committee notes and comments on:

- i) **The Council's Treasury Management Strategy for 2021/22 as set out in section 4 of this report.**
- ii) **The Council's Prudential Indicators set out in Appendix B.**
- iii) **The Council's associated counterparty list as set out in Appendix C**

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of the financial year.

3. KEY IMPLICATIONS

Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
No. of days that counterpart limits are exceeded	>0	<=0	N/A	N/A	May 2022
No of days that the operational boundary for long-term debt is exceeded	>0	<=0	N/A	N/A	May 2022

4. FINANCIAL DETAILS / VALUE FOR MONEY

Treasury Management Strategy 2021/22

Introduction

4.1 The Council's Treasury Management Strategy for 2021/22 considers:

- (i) the impact of anticipated capital and revenue cash flows,
- (ii) the maintenance of existing loan debt,
- (iii) the availability and use of internal sources of finance such as reserves, capital funds and capital receipts unapplied.
- (iv) where surplus cash is available the strategy considers the extent to which these should be invested.
- (v) the strategy considers the need for the Council to consider alternative financing options such as borrowing and reviews the potential trends in interest rates.

Integral to the strategy is the setting of the various Indicators required by the Prudential Code that Cabinet will monitor.

4.2 The council has cash balances which are used to fund day to day service operations and support capital funding through the use of internal resources. Any surplus funds are invested within constraints set out by the Secretary of State. The Council also has debt which has built up over time to fund its fixed assets. The S151 Officer manages both the day to day cash requirements (including the investment of surplus funds) and the borrowing requirements of the Council through an in-house treasury management team. Cash investment earnings are included in the Council's revenue budget which also reflects the debt financing implications of the proposed capital programme.

- 4.3 The Council's investment and borrowing policies are governed by the Local Government Act 2003 and the Secretary of State's Investment Code. These contain regulations backed up by various Codes of Practice. The CIPFA Treasury Management Code of Practice, which the Council has formally adopted and the Secretary of State's Investment Code, both require the S151 Officer, before the beginning of each financial year, to present an Annual Treasury Management Strategy for the forthcoming year for approval by the full Council. The Council also implemented the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 requiring Council to approve an Annual Statement of Minimum Revenue Provision which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund only.
- 4.4 The CIPFA Prudential Code for Capital Finance in Local Authorities sets out indicators that are used to support capital expenditure plans and treasury management decisions. Section 3 of the Local Government Act 2003 requires the Council to approve an "affordable borrowing limit". This is the maximum level of loan debt that may be outstanding at any point in time. The proposed Prudential Indicators and borrowing limits to be approved by the Council are set out in Appendix B. These have been set having regard for the overall treasury management strategy and will be monitored during the year.
- 4.5 Finally, it is a statutory requirement under S33 of the Local Government and Finance Act 1992 for the Council to produce a balanced budget, and in particular this includes the impact of revenue costs flowing from capital expenditure financing decisions. The S151 Officer confirms that the capital expenditure plans comply with the statutory requirement to set a balanced budget.

Capital Financing Strategy

- 4.6 The current ("Prudential") System of capital controls allows the Council to determine its own level of capital investment. However, the Council must demonstrate that its capital programme is affordable, prudent and sustainable. In the short-term the proposed capital programme will be financed from external borrowing. Any delays in receiving cash from anticipated receipts will be covered through the temporary use of unsupported short-term borrowing.
- 4.7 Although the capital programme is planned with reference to the total level of resources available to finance capital expenditure, the method of financing individual capital schemes will be determined by the S151 Officer at the end of the financial year. The order of use of sources of finance for the capital programme is:
1. Capital Grants
 2. Capital Contributions from outside bodies e.g. Section 106 / CIL
 3. Capital Receipts
 4. Direct Revenue Contributions – mainly for short life assets
 5. Draw down from accumulated investments (set aside to repay debt)
 6. Prudential Borrowing (unsupported) to finance 'invest to save' schemes and pending the arrival of future known capital receipts
 7. Leasing will also be considered if more cost effective.

The unfunded elements of the proposed capital programme will be financed from external borrowing. Any delays in receiving cash from anticipated receipts will be covered through the temporary use of unsupported short-term borrowing.

- 4.8 Capital Grants and external contributions are likely to have been received for specific schemes and therefore cannot be used for any other purpose. For other schemes, capital receipts are to be used in preference to revenue contributions or borrowing.
- 4.9 Capital Receipts will be fully applied in the year in which they are received if possible, to reduce the level of Minimum Revenue Provision (MRP) i.e. the monies that the council sets aside for debt repayment.
- 4.10 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's main objective when borrowing is to strike a balance between securing low interest rates and achieving cost certainty over the period for which funds are required. This position provides short-term savings with the flexibility to secure longer dated loans as and when financial forecasts indicate that external borrowing rates may increase.

Minimum Revenue Provision (MRP) Policy

- 4.11 Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.
- 4.12 Setting aside MRP is sometimes referred to as setting aside monies for borrowing, implying that this is setting aside money for repaying external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the council's own cash resources and no external borrowing or new credit arrangement has been entered into.
- 4.13 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the council considers to be prudent. This statement is designed to meet that requirement.
- 4.14 In setting a prudent level of MRP local authorities are required to "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance

(version four) was issued by Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.

- 4.15 The Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the council. It sets out four “possible” options for calculating MRP, as shown below:

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred <u>before</u> 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred <u>before</u> 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred <u>after</u> 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred <u>after</u> 1 April 2008

- 4.17 Two main variants of Option 3 are set out in the Guidance: (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge towards the later part of the asset’s expected useful life and is increasingly becoming the most common MRP method for local authorities.
- 4.18 The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include: capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies.
- 4.19 Other approaches are not ruled out however they must meet the statutory duty to make prudent provision each financial year.
- 4.20 Having regard to current Guidance on MRP issued by MHCLG and the “options” outlined in that Guidance and to even out the financing costs of assets over their anticipated life, on 3rd December 2019 Full Council approved the following MRP Statement to take effect from 1 April 2019:
- for all capital expenditure, MRP will be based on expected useful asset lives (Option 3 – asset life), calculated using the annuity method;
 - asset lives will be arrived at after discussion with the Council’s valuers’, but on a basis consistent with depreciation policies set out in the Council’s Annual Statement of Accounts, and will be kept under regular review;

In applying 'Option 3':

- MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational;
- the estimated useful lives of assets used to calculate MRP should not exceed a maximum of 50 years except as otherwise permitted by the guidance (and supported by valuer's advice);
- if no useful life can reasonably be attributed to an asset, such as freehold land, the estimated useful life should be taken to be a maximum of 50 years;

4.21 The annuity method is a similar approach to a repayment mortgage where the principal repayments increase through the life of the asset in comparison to a straight-line method which repays the same amount of principal each year. This will result in the Council paying less for its capital financing costs over the short to medium-term than it otherwise would have under the old methodology, although in the longer term principal repayments will increase as interest rate payments reduce over the life of the asset. This approach is now being taken by most large authorities as it more accurately reflects the value of the asset.

4.22 MRP for finance leases and service concession contracts shall be charged over the primary period of the lease, in line with the Guidance.

4.23 For expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003 or Regulation 25(1) of the 2003 regulations, the 'asset' life should equate to the value specified in the statutory Guidance.

Interest Rate Assumptions

4.24 With the ongoing coronavirus pandemic and economic uncertainty due to Brexit, the Bank of England Bank Rate is likely to remain at low levels for a significant time into the future. Arlingclose, the Authority's treasury management advisors, are currently forecasting interest rates to remain at 0.1%, however, they do note that further cuts to the Bank Rate to zero or even into negative territory cannot be ruled out. Our current assumption is that rates will remain at 0.1% throughout 2021/22.

Borrowing

4.25 The table below shows the Council's current borrowing projection to the end of 2025/26, with increasing borrowing required to fund the Capital Programme:

Borrowing Type	Actual 31/03/2020	Projected 31/03/2021	Projected 31/03/2022	Projected 31/03/2023	Projected 31/03/2024	Projected 31/03/2025	Projected 31/03/2026
	£000	£000	£000	£000	£000	£000	£000
Long term	57,049	57,049	56,264	56,264	56,264	56,264	56,264
Short term	167,521	161,000	160,363	169,201	184,841	158,480	134,088
Investments	(42,104)	(10,000)	(10,550)	(10,550)	(10,550)	(10,550)	(10,550)

Loans to partners*	(9,622)	(9,622)	(7,458)	(7,458)	(7,458)	(7,458)	(7,458)
Net Borrowing	172,844	198,427	198,619	207,457	223,097	196,736	172,344

*Cashflow loans to AfC and the Property Company

Borrowing Strategy

- 4.26 The Council has prepared and published a three-year capital expenditure plan to 2023/24 and will undertake short-term borrowing to ensure the affordability and delivery of the capital programme.
- 4.27 The Council's borrowing levels are due to increase over the next three years to fund its capital programme and currently a high proportion of its borrowing is short-term. This has enabled the Council to benefit from the reduction in interest rates as it has been able to renew this borrowing at lower rates. However, it does leave the Council exposed to the risk of interest rates rising in the future. With interest rates expected to remain at low levels for the foreseeable future the Council will continue its current strategy of using short-term borrowing to take advantage of these rates. It will continue to carefully monitor future interest rate projections and in consultation with its treasury management advisors look at possibilities to take on more long-term borrowing if this can be sourced at a favourable rate.
- 4.28 The Council inherited much of its borrowing maturity following the transfer of ex-Berkshire debt from Reading Borough Council. The S151 Officer will ensure that future borrowing is arranged to limit the proportion of borrowing maturing in any one financial year and in doing so safeguard against the possibility of borrowing at a time of unfavourable interest rates.
- 4.29 The debt portfolio also consists of two Lenders Option Borrowers Options (LOBOs) totalling £13 million. The first option is not due for several years. The lenders for the LOBOs are Barclays and Dexia. Barclays have withdrawn their option to change the rate, so the Barclays loan is now effectively a fixed rate/fixed-term loan. Dexia have retained their option which can be taken every 5 years on the 25 January, with the next option date being 25 January 2023. However, if the current low bank rates continue it is unlikely that Dexia would exercise their options for repayment. The Council could look to repay these loans early if it were able to source replacement borrowing at a low enough rate to compensate for early repayment costs. At present this is not the case but it will continue to review this possibility. The current assumption is that these loans will run to maturity.
- 4.30 With regard to Public Works Loan Board (PWLB) debt, the S151 Officer will ensure the prudent planning of any new loans taken out. The S151 Officer will continue to review the potential to restructure the older and more costly debt and, where it is economic to do so, will recommend implementing debt restructuring strategies where feasible to reduce refinancing risk and increase value for money.
- 4.31 The authorised limit for external borrowing is the highest level of borrowing expected during the year to cover any exceptional adverse cash flow movements when payments run ahead of receipts and/ or any changes in borrowing which could arise to cover capital schemes funded through prudential borrowing. Once agreed it is a ceiling which should not be exceeded without further Council approval. The authorised limit is shown in Appendix B.

- 4.32 The operational boundary is the maximum borrowing that should be required if there are no exceptional cash flow movements. This is to ensure that in normal circumstances borrowing is only used to finance capital expenditure. The operational boundary is shown in Appendix B.

Investment Strategy

- 4.33 S12 of the Local Government Act 2003 gives a local authority power to invest for “any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs”. S15(1) of the 2003 Act requires an authority to “have regard to such guidance as the Secretary of State may issue”, and the Secretary of State issued an Investments Code in 2004. The S151 Officer confirms that the strategy set out below complies with these requirements.
- 4.34 Since the collapse of the Icelandic banks and the problems experienced by the banking sector, the S151 Officer has kept the counter party lending list under constant review having good regard to the balance between risk and return. The S151 Officer has consulted key Cabinet members in establishing a revised counter party listing which reflects the level of exposure to investment risk the council is prepared to support and establish a list of banks, building societies and banking institutions which minimise the Council’s risk and the limit of exposure using the Fitch credit rating methodology. The investment limit of each counter party and the current exposure is shown in Appendix C.

Managing Treasury Management Performance

- 4.35 The Treasury Management function is provided by a small in-house team and regular meetings take place with the Chief Accountant and Head of Finance at which the current situation for investments and borrowing are reviewed and performance advised to the S151 Officer.

The implications of treasury management activities during the year will be included in Finance Update reports to the Cabinet and a mid-year performance report considered by the Audit and Governance committee.

Prudential Indicators

- 4.36 The objectives of the CIPFA Prudential Code for Capital Finance in Local Authorities are to ensure that local authorities’ capital investment plans are affordable, prudent and sustainable. In addition, treasury management decisions must reflect good professional practice and support prudence, affordability and sustainability. The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal. To demonstrate that the objectives are being fulfilled, and to support and record local decision-making councils are required to set specific Prudential Indicators. These are not designed to be inter-authority comparative performance indicators and each authority sets its own limits or ratios.
- 4.37 The proposed indicators over the three year planning period are detailed in Appendix B.

Fixed/Variable Interest Rate Exposure

4.38 This indicator is set to control the Council's exposure to interest rate risk.

Upper limit on proportion of borrowing that is fixed rate	100%
Upper limit on proportion of borrowing that is variable	80%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Statutory Determinations

- 4.39 The council must "determine and keep under review" how much money it can afford to borrow – the Affordable Borrowing Limit. This is the maximum amount of loan debt that may be outstanding at any point in time and includes both borrowing for capital purposes and an allowance for temporary revenue borrowing.
- 4.40 It is proposed that the Affordable Borrowing Limit should be set at the maximum estimated borrowing level for each year. These limits are included in the Prudential Indicators in Appendix B.

Financial Implications

- 4.42 It is a statutory requirement under S33 of the Local Government and Finance Act 1992 for the Council to produce a balanced budget, and this includes the impact of revenue costs flowing from capital expenditure financing decisions in particular. The S151 Officer confirms that the capital expenditure plans comply with the statutory requirement to set a balanced budget.
- 4.43 The strategy for treasury management is to maximise, in a prudent fashion, investment income and to minimise interest payments on debt.

5. LEGAL IMPLICATIONS

- 5.1 This report assists the council in fulfilling its statutory obligation to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy for the coming year setting out the council's policies for managing its borrowing and investments and giving priority to the security and liquidity of those investments.

6. RISK MANAGEMENT

Risks	Uncontrolled Risk	Controls	Controlled Risk
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council	MEDIUM	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly Counterparty limits reviewed and reduced to limit individual exposure.	LOW
That funds are invested in fixed-term deposits and are not available to meet the council's commitment to pay suppliers and payroll.	MEDIUM	A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the council's commitment to pay suppliers and payroll.	LOW

7. POTENTIAL IMPACTS

7.1 Equalities. None identified.

7.2 Climate change/sustainability. None identified

7.3 Data Protection/GDPR. None identified.

8. CONSULTATION

8.1 Not applicable

9. TIMETABLE FOR IMPLEMENTATION

9.1 The strategy will be used from 1 April 2021 in line with the commencement of the 2021/221 budget.

10. APPENDICES

10.1 This report is supported by three appendices:

- Appendix A Treasury Management Principles
- Appendix B Prudential Indicators
- Appendix C Counterparty Lending List

11. BACKGROUND DOCUMENTS

11.1 None

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance	23/10/20	
Cllr Johnson	Leader of the Council	23/10/20	
Duncan Sharkey	Managing Director	23/10/20	
Russell O'Keefe	Director of Place	23/10/20	
Adele Taylor	Director of Resources and S151 Officer	23/10/20	27/10/20
Andrew Vallance	Head of Finance	23/10/20	23/10/20
Elaine Browne	Head of Law	23/10/20	28/10/20
Nikki Craig	Head of HR, Corporate Projects & ICT	23/10/20	27/10/20
Louisa Dean	Communications	23/10/20	
Kevin McDaniel	Director of Children's Services	23/10/20	27/10/20
Hilary Hall	Director of Adults, Commissioning & Health	23/10/20	27/10/20
Karen Shepherd	Head of Governance	23/10/20	26/10/20
Mary Severin	Monitoring Officer	23/10/20	28/10/20

13. REPORT HISTORY

Decision type: Audit and Governance Committee for Information	Urgency item? No	To Follow item? Not applicable
Report Author: Ryan Stone, Accountant.		

TREASURY MANAGEMENT POLICIES

In the preparation of this treasury management strategy a number of key areas are considered to be fundamental to our treasury management activity. They are listed below and covered in more detail in the body of this strategy.

- Risk Management
- Performance Measurement
- Decision-making and analysis
- Approved instruments, methods and techniques
- Organisation, clarity and segregation of responsibilities, and dealing arrangements
- Reporting requirements and management information arrangements
- Budgeting, accounting and audit arrangements
- Cash and cash flow management
- Money laundering
- Training and qualifications
- Use of external service providers
- Corporate governance

SECTION 1 RISK MANAGEMENT

General statement

The S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report annually to Cabinet on their adequacy and suitability. Any actual or likely difficulty in achieving the organisation's objectives will be reported to Cabinet in accordance with the procedures set out in *Reporting requirements and management information arrangements*.

Credit and counter party risk management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter party lists and limits reflect a prudent attitude towards organisations with whom it trades. It also recognises the need to have and maintain a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Liquidity risk management

The Council will ensure it has adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable it to have the level of funds available necessary for the achievement of its business / service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs in line with the amounts provided in its budget.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues. At the same time retaining a degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

Any decision will be subject to the consideration of this strategy and, if required, approval of Cabinet or Council.

Exchange rate risk management

The Council will manage any exposure to fluctuations in exchange rates, in order to minimise any detrimental impact on its overseas pensions investments.

Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. The maturity profile of the monies raised will be managed with a view to obtaining terms for refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

SECTION 2 PERFORMANCE MEASUREMENT

The Council is committed to the pursuit of value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Council's Treasury Management Strategy.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

SECTION 3 DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

SECTION 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the appendices to this document, and within the limits and parameters defined in *Section 1 Risk Management*.

SECTION 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the S151 Officer will ensure that the reasons are properly reported in accordance with *Section 6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The S151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The S151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The S151 Officer will fulfil all such responsibilities in accordance with the policy statement.

SECTION 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

Cabinet will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year report on progress against the strategy and plan
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement.

SECTION 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The S151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *Sections 1 Risk management, 2 Performance measurement, and 4 Approved instruments, methods and techniques*. The S151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *Section 6 Reporting requirements and management information arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

SECTION 8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the S151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the S151 Officer will ensure that these are adequate for the purposes of monitoring compliance with *Section 1 liquidity risk management*.

SECTION 9 MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

SECTION 10 TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The S151 Officer will recommend and implement the necessary arrangements.

The S151 Officer will ensure that members of the Audit and Governance Committee and Corporate Overview and Scrutiny Panel have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

SECTION 11 USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that the responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure that it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and are subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

SECTION 12 CORPORATE GOVERNANCE

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management. The S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

PRUDENTIAL INDICATORS 2019/20 TO 2023/24

The actual figures for 2019/20 and the estimates for four further years are shown below. These prudential indicators are prepared in accordance with the CIPFA Prudential Code for Capital Financing in Local Authorities

The figures set out below include this council's share of the old Berkshire County Council debt that is now managed by the Royal Borough.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure (£m)	£68.9m	£39.1m	£36.4m	£28.3m	£24.6m
Ratio of financing costs to net revenue stream					
- Non-loan financed	15.2%	16.9%	38.4%	20.2%	8.8%
- Loan financed	4.7%	5.2%	5.9%	5.7%	6.0%
Capital Financing Requirement (£m)	209.3	229.8	226.5	232.2	245.0

In respect of its external debt, the Council approves the following authorised limits for its external debt gross of investments for the next three financial years.

	2019/20	2020/21	2021/22	2022/23	2023/24
Authorised limit for external debt (£m)	£230m	£284m	£306m	£304m	£311m

The Council also approves the following boundary for external debt for the same period.

	2019/20	2020/21	2021/22	2022/23	2023/24
Operational boundary for external debt (£m)	£208m	£261m	£282m	£279m	£284m

The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worse case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. It include both long and short term (i.e. less than 365 day) borrowing.

APPENDIX C

Royal Borough of Windsor & Maidenhead Approved Counterparty List

<u>Fitch Ratings</u>	FITCH ShortTerm Rating	FITCH Long Term Rating	FITCH Outlook	Max. Sum To Be Lent £m
<u>UK</u>				
<u>Government</u>				
Debt Management Office	F1+	AA-	Negative	no limit
<u>Banks</u>				
Australia and New Zealand Bank	F1	A+	Negative	5
Barclays Bank	F1	A	Negative	5
Clydesdale Bank	F2	A-	Negative	5
HSBC	F1+	AA-	Negative	5
Lloyds Banking Group	F1	A+	Negative	7.5
National Australia Bank Ltd	F1	A+	Negative	5
Royal Bank of Canada	F1+	AA	Negative	5
Royal Bank of Scotland	F1	A	Negative	5
Santander UK	F2	A-	Negative	5
Standard Chartered	F1	A	Negative	5
Ulster Bank	F1	A+	Negative	5
<u>Local Authorities</u>				
All UK Local Authorities, with the exception of those with reported financial irregularities.				5
<u>Money Market Funds</u>				
All money market funds with a Fitch AAA long term credit rating, including:				
Federated Short Term Sterling Prime Fund		AAA		5
Invesco Sterling Liquidity Fund		AAA		5
Aberdeen Sterling Liquidity Fund		AAA		5
Insight GBP Liquidity Fund		AAA		5
LGIM Sterling Liquidity Fund		AAA		5
<u>Revolving Credit Facility</u>				
AFC				11.7
<u>Financial Services Companies</u>				
Kames Capital				1
Legal & General				1.5
<u>RBWM associated companies</u>				
Flexible Home Improvement Loans Ltd				0.5
RBWM Property Company Ltd				1.5
<u>Charitable Trusts</u>				
Leisure Focus Trust				0.35

SHORT TERM RATING

Expectation of timely repayment of financial commitments.

F1+ is most likely to repay on time, **F1** Highest Credit, **F2** Good, **F3** Fair, **B** Speculative, **C** High Default Risk

LONG TERM RATING

Expectation of credit risk. **AAA** is the least risky, ie little credit risk. **AA** Very High Credit, **A** High, **BBB** Good.

Below BBB indicates non-investment grade

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Report Title:	Draft Capital Strategy 2021/22 – 2025/26
Contains Confidential or Exempt Information?	No - Part I
Member reporting:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Audit and Governance Committee - 9 November 2020
Responsible Officer(s):	Adele Taylor, Director of Resources & Section 151 Officer
Wards affected:	All

www.rbwm.gov.uk



REPORT SUMMARY

1. This report sets out the Council's proposed capital strategy for 2021/22 - 2025/26.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Audit and Governance Committee notes the report and comments on:

- i) The draft Capital Strategy set out in Appendix A.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 This report sets out the draft Capital Strategy for the Royal Borough of Windsor and Maidenhead
- 2.2 The final Capital Strategy will be approved as part of the Budget in February 2021.
- 2.3 The Committee is invited to comment on the draft strategy.

3. KEY IMPLICATIONS

Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
Capital expenditure is agreed within an	Fails to meet Council objectives and	Meets Council objectives and	n/a	n/a	1 April 2021

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
approved strategy	service needs	service needs			

4. FINANCIAL DETAILS / VALUE FOR MONEY

Capital Strategy

- 4.1 The draft Capital Strategy for 2021/22 to 2025/26 is attached as **Appendix A**.
- 4.2 The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; along with an overview of how associated risk is managed and the implications for future financial sustainability.

It aligns with the Council's interim strategy, medium-term financial strategy and treasury management strategy. The Council also approved an Asset Management Review and action plan in June 2020 and this capital strategy also aligns with that too.

5. LEGAL IMPLICATIONS

- 5.1 None.

6. RISK MANAGEMENT

- 6.1 Failure to adopt a Capital Strategy linked to the Medium Term Financial Strategy and the Treasury Management Strategy could lead to poor investment decisions, failure to deliver services and Council policies, and unforeseen revenue consequences.

7. POTENTIAL IMPACTS

- 7.1 **Equalities.** A full EQIA will be undertaken on the final budget and capital strategy submitted to Council in February 2021.
- 7.2 **Climate change/sustainability.** The potential impact of capital expenditure recommendations will be considered once details of budget submissions are published.
- 7.3 **Data Protection/GDPR.** Not applicable.

8. CONSULTATION

- 8.1 The draft budget, including capital expenditure plans, approved by Cabinet in December 2020 will be fully consulted on before final proposals are made to Cabinet and Council in February 2021. All Scrutiny committees will consider the areas relevant to their remits.

9 APPENDICES

9.1 The table below details the Appendices to this report

Appendix	
A	Draft Capital Strategy 2021/22 – 2025/26

10 BACKGROUND DOCUMENTS

10.1 None

11 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance	23/10/20	26/10/20
Duncan Sharkey	Managing Director	23/10/20	
Russell O’Keefe	Executive Director of Place	23/10/20	
Mary Severin	Monitoring Officer	23/10/20	28/10/20
Elaine Browne	Head of Law	23/10/20	28/10/20
Nikki Craig	Head of HR, Corporate Projects & ICT	23/10/20	27/10/20
Adele Taylor	Director of Resources, S151 Officer	23/10/20	27/10/20
Louisa Dean	Communications	23/10/20	
Kevin McDaniel	Director of Children’s Services	23/10/20	27/10/20
Hilary Hall	Director of Adults, Commissioning & Health	23/10/20	26/10/20
Karen Shepherd	Head of Governance	23/10/20	26/10/20

12 REPORT HISTORY

Decision type: Audit and Governance Committee for information	Urgency item? No	To Follow item? Not applicable
Report Author: Andrew Vallance, Head of Finance		

Royal Borough of Windsor and Maidenhead Draft Capital Strategy 2021/22 – 2025/26

1. Introduction

- 1.1 The Royal Borough of Windsor and Maidenhead (RBWM) has ambitious plans to invest in the regeneration of the Borough and deliver high quality facilities to its residents.
- 1.2 The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.3 It shows how revenue, capital and balance sheet planning are integrated. The Strategy is informed by the Council's priorities and links to other key strategy documents, notably the interim corporate strategy, the Medium Term Financial Plan and the Treasury Management Strategy as well as the asset management review and action plan agreed in June 2020.
- 1.4 The document also provides an overview of the delivery mechanisms and decision processes that RBWM will use to determine and deliver its future capital priorities.

2. What is Capital Investment?

- 2.1 Capital investment can be put into a number of different categories as follows:-
 - (i) **Major Projects** – After option appraisal this can include the provision of a new school, library or leisure centre, or major highways investment.
 - (ii) **Invest to Save Schemes** – where the Council invests in a project on the understanding that it will pay for itself over a reasonable period of time.
 - (iii) **Equipment Replacement** – where the Council is required to replace certain equipment e.g. IT assets when they become obsolete.
- 2.2 In some cases projects may be fully funded by Government Grants or partner contributions.
- 2.3 The main sources of capital funding are:-
 - (a) **Capital Grants** – either general grants or specific grants towards specific projects e.g. highways and schools.
 - (b) **Developer Contributions** – towards the costs of local infrastructure stemming from new development. This includes S106 & Community Infrastructure Levy (CIL).

- (c) **Partner Contributions** – Council partners may make a contribution towards the cost of capital projects.
 - (d) **Revenue Contributions** – where the revenue budget meets the cost of ongoing capital spending e.g. maintenance of buildings etc.
 - (e) **Capital Receipts** – from the disposal of council assets.
 - (f) **Prudential Borrowing** – this enables councils to borrow to fund capital investment provided that it is affordable. This is largely undertaken through the Public Works Loan Board (PWLB). The debt financing costs are also met by the revenue budget.
- 2.4 There is a fine dividing line, when deciding whether spending should be charged as day to day revenue spending or included within the capital programme.
- (i) **Spending less than £20,000** is considered to be revenue spending. This is the de minimis level that the Council sets.
 - (ii) **Annual maintenance** is considered to be revenue spending
- 2.5 Ideally, RBWM aims to cover recurring spending from its revenue budget and fund short life assets from external income sources. Borrowing is used to fund spending on longer life assets e.g. buildings and infrastructure.

3. National Financial Context

- 3.1 Over recent years all unitary authorities have faced significant cuts as a result of austerity. This has had a significant impact on major investment decisions. The impact of COVID-19 has further impacted councils at unprecedented levels.
- (i) Government capital grants for funding capital projects have been cut significantly.
 - (ii) Material pressures on revenue budgets mean that councils are finding it harder to meet significant borrowing costs stemming from capital investment.
- 3.2 Council budgets have come under significant pressure resulting in some councils capitalising certain spending. This has allowed them to borrow to spread the cost of this spending over a number of years and ease the immediate pressure on the revenue budget e.g. capitalising debt interest.
- 3.3 Some councils have taken a more commercial approach to their assets. For example they may have built or expanded car parking to generate additional ongoing income to support the council budget or purchased property for a purely financial return.
- 3.4 Unprecedented low interest rates have enabled councils to borrow cheaply to fund new capital investment. However, it is expected that changes will be made to the lending terms of the PWLB in coming months in relation to such commercial investment following the current central government consultation.

- 3.5 Many councils have also benefited from capital receipts from asset sales to offset the cost of new capital investment and this is an option open to RBWM.

4. Financial Context RBWM

- 4.1 RBWM has the advantage of substantial and valuable land holdings. It has been pro-active and innovative in using these land holdings to generate capital receipts for new investment.
- 4.2 In some cases the Council has used the capital receipt generated from the closure of a facility to largely fund its replacement. Unfortunately the disposal can only take place once the new facility is built, which means that
- (i) The Council needs to borrow to fund the new facility initially
 - (ii) The Council carries the risk of holding and disposing of the previous asset.
- 4.3 In other cases RBWM has been able to use s106 & CIL contributions to offset the cost of certain capital investment, where this is consistent with the terms of the development agreement.
- 4.4 RBWM has also invested in its assets to generate income to support its revenue budget. This has included:-
- (i) Converting and investing in council land to generate additional income from car parking provision.
 - (ii) Investing in commercial property to maintain a revenue income stream.
- 4.5 This has resulted in significant capital investment in recent years. Council borrowing is projected at £160m for 2021/22.
- 4.6 When building the capital programme for 2021/22 the cost of borrowing has been kept as low as possible by investing in essential schemes only. This is in addition to the schemes approved in previous years by Council. For 2021/22 debt financing costs, including MRP, are estimated at £5.8m. This will reduce in future years as disposals of council assets are used to repay short term debt. At the same time the investment will also have generated considerable income that will help the Council repay this debt.
- 4.7 Historically, RBWM has sought to keep Council tax levels to a minimum. This has meant that it has tightly controlled spending within its revenue budget, which in turn has had consequences for its capital budget, such as needing to:
- (i) fund significant spending on maintaining assets from borrowing rather than funding this from within its revenue budget
 - (ii) use capital to fund a number of short term asset replacements.
 - (iii) prioritise spending that generates future income to contribute to its revenue budget.

- 4.8 In the short term this has helped to spread the cost of this investment over a number of years and reduce the impact on the revenue budget.
- 4.9 However, in the longer term as borrowing increases, this places more and more pressure on the revenue budget, through increasing the level of debt financing costs.
- 4.10 Currently some £2m of ongoing regular capital investment, normally financed through the revenue budget, is within the Capital Programme. Over time the Council needs to return to meeting a larger share of this spending from a revenue contribution. This will enable it to allocate a larger share of its capital programme to long term projects and investing in the borough.
- 4.11 Given the current pressures on the revenue budget, it will take some time to redress this balance.

5. RBWM Capital Strategy

Developing Capital Plans

- 5.1 Decisions around future capital investment should not be taken lightly as it often involves significant sums of money, which has a significant future impact on council finances.
- 5.2 The Council faces some tough choices against competing priorities and therefore always needs to balance the immediate benefit of investing in a new capital asset against the future financial sustainability of council finances. One of these tough choices will be whether to borrow to develop council assets to create long term revenue streams or whether to dispose of assets to help to reduce borrowing costs.
- 5.3 To strike this tough balance the Council will:-
 - (a) **Have clear capital investment priorities for all of its key services** – this will allow it to balance the needs of individual services against one another.
 - (b) **Develop clear business cases for major projects** – so that there is a clear understanding about the benefits that the project will deliver and whether these are worth the level of investment required.
 - (c) **Set clear objectives** – for example it needs to be clear about the payback period it expects from commercial invest to save schemes.
- 5.4 This prioritisation will be assisted by having:
 - (a) **Surveys of all council assets** that set out maintenance requirements over time

- (b) **Clear replacement strategies** – that show when assets need to be replaced and updated e.g. IT equipment and systems.

- 5.5 Given the long-term nature of capital investment, the Council should be able to plan ahead effectively and avoid the need for capital schemes to emerge at the last minute.
- 5.6 Above all, there is a need for an effective process to assess competing capital priorities and develop more long-term capital plans.

6. RBWM Council Priorities

- 6.1 The Council's priorities must be at the heart of any capital strategy.
- 6.2 Finance is both the enabler that allows the Council to deliver these key priorities and the constraints that the Council needs to work within as it makes tough decisions between those priorities.
- 6.3 RBWM has an agreed interim strategy in light of the impact of the pandemic on the authority. The interim strategy was agreed by Cabinet on 30th July 2020. A refresh of the overall corporate strategy will be undertaken.
- 6.4 The current agreed interim key priorities for Windsor and Maidenhead are:-

Covid-19

- Immediate response
- Long term recovery
- New service requirements

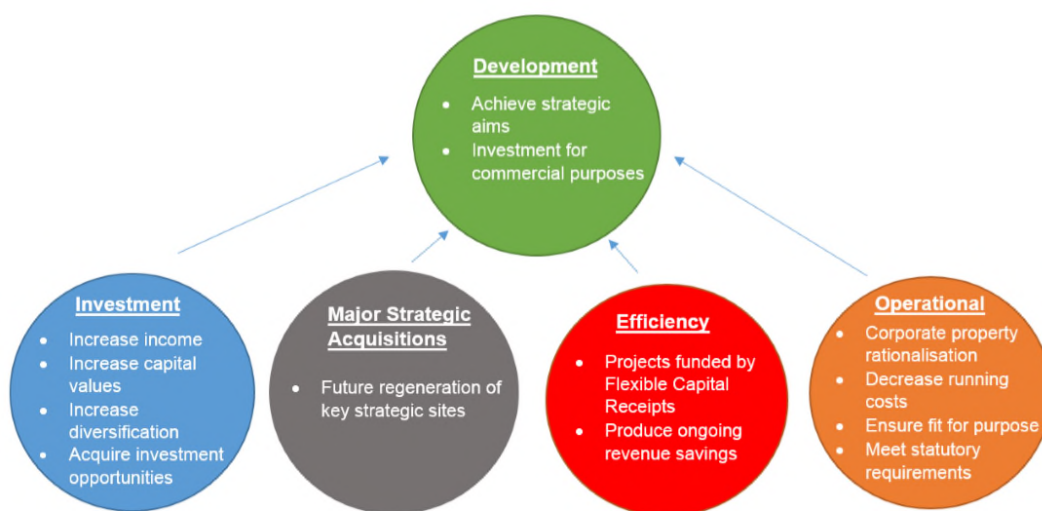
Interim Focus Objectives

- Service stand up (business continuity)
- Revised service operating plans
- Transformation plan
- Climate strategy
- Governance
- People plan – values, leadership, Diversity and Inclusion

MTFS

- Impact of Covid-19 directly
- Economic downturn
- Government policy

- 6.5 A number of these priorities involve long term capital investment in the Royal Borough.
- 6.6 The Council's capital programme is prioritised into five key areas: Development, Investment, Major Strategic Acquisitions, Efficiency and Operational.



7. Service priorities for investment

7.1 The Council's service priorities for investment over the lifetime of this strategy are set out by directorate for ease of reference, see table 1.

Table 1: RBWM service priorities for investment

Directorate	Service priorities	Link to statutory or other plan	Link to Council priority
Adults, Health and Commissioning	<ul style="list-style-type: none"> • New accommodation provision for vulnerable people • Maintenance and improvement of existing accommodation provision. 	Adult Social Care Transformation Programme	Healthy, skilled and independent residents
	<ul style="list-style-type: none"> • Investment in highways infrastructure, including bridges and footpaths • Investment in alternative transport linked to climate change • Investment in road safety 	Local Transport Plan Asset Management Plan Cycling Strategy	Safe and vibrant communities Attractive, well connected borough

	<ul style="list-style-type: none"> One off pump priming investment in digital and communications infrastructure. 	Council Transformation Strategy	Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Office accommodation provision for commissioned services 		Well managed resources, delivering value for money
Children's Services	<ul style="list-style-type: none"> Education: capacity to keep up with growth in population in partnership with Academy schools 	Infrastructure Plan	Healthy, skilled and independent residents, Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Education: capacity for children with additional needs in mainstream schools 	Inclusion Strategy	Healthy, skilled and independent residents, Well managed resources
	<ul style="list-style-type: none"> Social Care: 18-25 supported accommodation for care leavers and those with additional needs 	Inclusion Strategy, Sufficiency Strategy, Council Transformation Strategy	Healthy, skilled and independent residents, Well managed resources
	<ul style="list-style-type: none"> Social Care: 5-10 residential children's home places to challenge the marketplace 	Sufficiency Strategy, Council Transformation Strategy	Healthy, skilled and independent residents, Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Office accommodation for services 		Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Modern technology platform for mobile and partnership working 	Council transformation Strategy	Well managed resources, delivering value for money

- 7.2 The Council also needs to be flexible enough to respond to opportunities to lever in additional external funding or grant that could partially fund an additional project alongside some capital investment from the Council.

8. Delivering Capital Projects

- 8.1 All capital projects over £100,000 are subject to a gateway process that requires them to set out:

- (a) A procurement Strategy for the project
- (b) A project timetable and delivery plan
- (c) An updated financial assessment including the revenue implications
- (d) A clear assessment of project benefits and how these will be delivered and assessed.

- 8.2 The Council has established a Capital Programme Board (CPB) which oversees the delivery of the capital programme. CPB is an officer working group. It is an advisory / monitoring body and takes any decision making power from the delegated authority of officers attending as set out in the scheme of delegation and the financial procedure rules within the Council's Constitution. It makes decisions where priorities and budgets are already agreed within the Council's Policy and Budget Framework. Any proposal that is outside the approved Policy and Budget framework will be referred to Cabinet and/or Council in accordance with the Constitution. The following summarises the terms of reference of the board:

Membership

- Executive Director of Place
- Head of Finance
- Head of HR, Corporate Projects and IT
- Head of Infrastructure and Sustainability
- Head of Commissioning – Infrastructure
- Capital Accountant.

Support to the Board

- Project Manager – Corporate Projects
- Executive Assistant to Executive Director of Place

Frequency

- CPB normally meets every 2 months but more frequently as required e.g. in the lead up to budget setting.

Overall Responsibilities

- Advise on the Council's Capital Strategy in line with the Council's priorities.
- Ensure the effective development and delivery of the Capital Programme in line with the Council's Capital Strategy and Council priorities.
- Identify and monitor the resources available to fund the Capital Programme in the most efficient way.

- Oversee the gateway process for the Capital Programme.
- Monitor the progress of the Capital programme and key variances between plans and performance.
- Encourage and enable the development of learning, skills and capacity in the management of capital projects across the organisation.

Priority Outcomes

- An effective Capital Strategy and Capital Programme that optimises the resources available to deliver the Council's priorities.
- Continuous improvement in the development and delivery of the capital programme and that strategic capital investment is planned and delivered in the most efficient and effective way.
- Review completed of the previously approved Capital Programme in light of the 'new normal' environment the Council will operate in.
- Better management of capital projects, in line with best practice, ensuring benefits are realised.
- Effective bidding for external capital funding.
- Enhanced cross-service strategic working and partnerships with other organisations on the development and management of capital projects.
- That the Capital Strategy and Programme is funded in the most efficient way and fully integrated into the Medium Term Financial Strategy of the Council.
- That lessons are learnt from capital projects undertaken by the Council.

8.3 The Working Group is able to approve the delivery of all projects up to £250,000, while projects above this level will be approved by Cabinet.

8.4 Cabinet receives a report on the delivery of capital schemes which is included within the regular Financial Update.

9. Financial Risks

9.1 Planning for the future can never be an exact science. There are many factors that the Council cannot control completely, COVID-19 being a prime example, which can have a significant impact on the viability of future capital plans.

- (a) **Revenue Budget** – ultimately the cost of borrowing to fund capital investment has to be met by the revenue budget. This means that the sustainability of the revenue budget as set out within the Budget Strategy is a key risk factor that impacts on the affordability of capital spending.
- (b) **Government Grants** – although Government Grants have reduced over time this still makes a significant contribution towards the cost and viability of major schools and highways schemes. This may improve

further should the government award additional capital grant for infrastructure in future years.

- (c) **Interest Rates** – although currently at a very low level, any rise in interest rates will impact on the affordability and viability of key future capital projects.
- (d) **Project Creep** - projects delivered over a period of time are inherently risky. Tight cost control is needed to ensure that the project keeps within the spending envelope.
- (e) **Contractual Risk** – the cost of major projects can be heavily dependent on the level of competition that influences bids to deliver the scheme.

9.2 Capital Projects are inherently risky. There are significant risks that the costs of capital schemes can exceed the original capital programme allocation. There is also a delivery risk that projects can be late.

9.3 Funding capital investment represents a significant pressure on the revenue budget. It is essential that the Council understands fully the revenue impact of capital investment and the extent to which the project:

- (i) meets the council's objectives
- (ii) is self-funding
- (iii) delivers a realistic pay back in the case of invest to save schemes

10. Summary and Conclusion

10.1 Capital investment decisions involve substantial sums of money and represent a long term plan, which can extend well beyond the term of the existing Council.

10.2 Decisions on future capital investment therefore need to balance a range of different long term priorities, often within tight financial constraints.

10.3 The strategy sets out some clear criteria for determining capital spending and deciding on the competing priorities.

10.4 The strategy also sets out a key delivery mechanism designed to deliver effective implementation of capital plans.

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Report Title:	2020-21 Audit and Investigation Interim Report (1 April 2020 – 30 September 2020)
Contains Confidential or Exempt Information?	No - Part I
Member Reporting:	Cllr C. Bateson, Chairman of the Audit and Governance Committee
Meeting and Date:	Audit and Governance Committee 9 November 2020
Responsible Officer(s):	Andrew Vallance, Head of Finance and Deputy S151 Officer
Wards affected:	None

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REPORT SUMMARY

1. This report summarises the Shared Audit and Investigation Service (SAIS) activity, including progress in achieving the 2020/21 Internal Audit and Investigation Plan, during the first six months of 2020/21 to 30 September 2020. This report will complement the 2020/21 Annual Audit and Investigation Report that will be presented to this Committee in June 2021.
2. It recommends that Members note the activity of the SAIS during the first six months of the 2020/21 financial year and the outcome of the audit reviews and investigations undertaken.
3. This recommendation is being made to ensure that the Council meets its legislative requirements, as well as the requirements of the Audit and Governance Committee's Terms of Reference and the Council's Anti Fraud and Anti Corruption Strategy.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Audit and Governance Committee notes the Shared Audit and Investigation Service activity for the six months ending 30 September 2020.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option	Comments
Note the activity of the SAIS during the first nine months of the financial year. This is the recommended option	This will ensure that the Council meets its statutory requirements. In addition, the Audit and Governance Committee will comply with its responsibilities as set out within their ToR and also the requirements of the Council's Anti Fraud and Anti Corruption Strategy.

Option	Comments
	This will ensure that the SAIS is complying with industry best practice as detailed in the Public Sector Internal Audit Standards (PSIAS).
Note this report, proposing amendments	<p>Members may wish to request that this report be amended / altered if they feel that there are material issues which have not received sufficient emphasis or if there are specific issues the report is deficient in.</p> <p>This may mean that the SAIS may not be complying with industry best practice as stated in the PSIAS.</p>
Not note this report	<p>This may expose the Council to unnecessary risks by not having an adequate internal control framework leading to poor performance and poor outcomes for service users/residents.</p> <p>It may result in a qualification in the External Auditors' Annual Management Letter.</p> <p>The SAIS will not be complying with industry best practice as detailed in the PSIAS.</p>

- 2.1 The Accounts and Audit Regulations 2015 require that every local authority undertakes an effective internal audit of their risk management, internal control and governance processes.
- 2.2 In addition, the Director of Resources (Section 151 Officer) has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty, the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management. The SAIS carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to the Audit and Governance Committee.
- 2.3 The aim of the report attached at Appendix A and the supporting Appendix A(I) is to cover these legislative requirements and it also provides a summary of the Council's investigation activities, as required to be reported on a half yearly and annual basis to the Audit and Governance Committee in accordance with the Council's Anti Fraud and Anti Corruption Strategy.

- 2.4 The 2020/21 Internal Audit and Investigation Plan was approved by the Corporate Overview and Scrutiny Panel on 4 February 2020. The emphasis on developing the Internal Audit Plan was based on mandatory and legislative requirements and the risks set out in the Corporate Risk Register (CRR) and it is clearly targeted at assisting the Council in achieving its key objectives.
- 2.5 Whilst a number of audit reviews are effectively considered as mandatory (key financial systems, particularly high risk items etc), others enter or leave the Audit Plan based on the CRR uncontrolled risk rating and the views of officers and Members. As such, the Plan is fluid and is regularly realigned to accommodate changes to the CRR, thereby ensuring that it remains current and focussed on the key risks affecting the Council. An in year review of the 2020/21 Audit and Investigation Plan has been undertaken and this was presented to this Committee on 14 September 2020. This revised Plan takes account of the effects of the Covid pandemic in respect of the audit and investigation work being undertaken during this financial year.
- 2.6 This recommendation is being made to ensure that industry best practice for the SAIS is being followed.

3. KEY IMPLICATIONS

3.1 **Table 2: Key Implications**

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
SAIS work is effective and is on track to achieve the 2020/21 Internal Audit and Investigation Plan, approved by the Corporate Overview and Scrutiny Panel on 4 February 2020. In addition, the Committee is complying with the requirements of its ToR and the requirements of the Council's Anti Fraud and Anti Corruption Strategy.	Failure of the Council to meet its statutory requirements and failure of the Audit and Governance Committee to discharge its responsibilities.	Council meets its statutory requirements to provide an adequate and effective internal audit of its system of internal control. The Audit and Governance Committee discharges its responsibilities.	n/a	n/a	31 March 2021

Unqualified External Audit Financial Accounts and Management Letter.	Adverse comment and a qualified External Audit Management Letter if the Council fails to maintain an adequate Internal Audit function.	Unqualified External Audit Management Letter as Council meets its requirements to provide an adequate and effective Internal Audit function.	n/a	n/a	31 March 2021
Residents have confidence that public funds are being used economically, efficiently and effectively and that Council assets and interests are being safeguarded from misappropriation, loss or fraud.	Loss of residents' confidence, Council assets and interests may not be safeguarded and the Council's reputation may be affected if there are not effective Internal Audit and Investigation functions.	Gain residents' confidence, Council assets and interests are safeguarded and the Council's reputation is protected as Council provides an effective Internal Audit and Investigation functions.	n/a	n/a	Ongoing
External Audit fee kept to a minimum.	Increase in the External Audit fee arising from them being required to undertake additional audit work by not being able to place reliance on the work of Internal Audit.	External Audit relies on the work of Internal Audit keeping the External Audit fee to a minimum.	n/a	n/a	Ongoing

4. FINANCIAL DETAILS / VALUE FOR MONEY

a) Financial impact on the budget

Revenue - Officer time in dealing with provision of the SAIS
Capital – None.

b) Financial Background – n/a – see 4a) above

5. LEGAL IMPLICATIONS

5.1 Internal Audit carry out their activities under:-

- Regulations 6 (1), 6(3) and (4) of the Accounts and Audit Regulations 2015.
- S151 Local Government Finance Act 1972.
- CIPFA/IIA Public Sector Internal Audit Standards 2017.

5.2 Investigatory activities are carried under:-

- Fraud Act 2006
- Criminal Justice Act 1987
- Theft Act 1968
- Forgery and Investigation Act 1981
- Social Security Administration Act 1992.
- Welfare Reform Act 2012.

6 RISK MANAGEMENT

Risks	Uncontrolled	Controls	Controlled
1. Failure of the Council to adequately plan and undertake audit reviews leading to failure to meet its statutory requirements. Without an adequate internal audit function, the Council's key systems and services are consequently at risk of not achieving their objectives in the most economic, efficient and effective way thus being exposed to misappropriation / loss.	High	Ensure and demonstrate an adequate internal audit function. Provide a regular written progress report on the work of internal audit to those charged with governance for endorsement.	Low
2. Failure to provide assurance that the work of the Internal Audit function properly supports the governance framework, the content of the Annual Governance Statement and the requirement for additional External Audit work at an enhanced cost to the Council.	High	Internal audit coverage included as part of the governance assurance framework and informing the Annual Governance Statement. Sufficient Internal Audit coverage for External Audit to be able to place reliance on the work.	Low
3. Without an appropriate internal audit governance framework in place, which includes an Internal Audit Charter, improved organisational processes and operations will not be identified across the Council which means that value for money is not achieved.	Medium	Approved Internal Audit Charter in operation and being followed.	Low

7. POTENTIAL IMPACTS

- 7.1 Equalities. The Equality Act 2010 places a statutory duty on the council to ensure that when considering any new or reviewed strategy, policy, plan, project, service or procedure the impacts on particular groups, including those within the workforce and customer/public groups, have been considered. This report is a non decision making report and updates current fraud policies. In undertaking our investigative work, we ensure we have regard for equalities.
- 7.2 Climate change/sustainability. We have considered the potential impact of the recommendations in relation to climate change / sustainability and have identified no impact.
- 7.3 Data Protection/GDPR. No personal data is being processed for this decision Data Protection Impact Assessments are a lawful requirement under certain conditions but do not impact on this report.

8. CONSULTATION

- 8.1 Consultations were undertaken with both internal stakeholders (Members of the Corporate Overview and Scrutiny Panel, Corporate Leadership Team, S151 Officer and the Insurance and Risk Manager) in preparing the 2020/21 Internal Audit and Investigation Plan. It should be noted that a new Audit and Governance Committee has been set up during 2020/21 and responsibility for Internal Audit now falls within that Committee.
- 8.2 Management and staff have been consulted prior to and during the course of the audit and investigation reviews to ensure that work is timed to suit both parties, to incorporate managements' priorities and to agree a course of action to implement the outcome of those reviews.
- 8.3 Consultation in respect of investigations work is as set down in the Council's Anti Fraud and Anti Corruption Strategy.

9. TIMETABLE FOR IMPLEMENTATION

- 9.1 The full implementation stages are set out in Table 3.

Table 3: Implementation timetable

Date	Details
31 March 2021	2020/21 Internal Audit and Investigation Plan – In Year Review

10 APPENDICES

- 10.1 This report is supported by 2 appendices:
- Appendix A – 2020/2021 Audit and Investigation Interim Progress Report (to 30 September 2020)
 - Appendix A(I) – 2020/21 Internal Audit Plan Status (1 April 2020 – 30 September 2020)

11. BACKGROUND DOCUMENTS

- 11.1 This report is supported by 3 background documents:
- 2020/21 Audit and Investigation Plan – In Year Review
 - Anti Fraud and Anti Corruption Strategy
 - CIPFA/IIA Public Sector Internal Audit Standards 2017

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Bateson	Chair of Audit and Governance Committee	26/10/20	
Duncan Sharkey	Managing Director	26/10/20	
Russell O'Keefe	Director of Place	26/10/20	
Adele Taylor	Director of Resources/S151 Officer	26/10/20	29/10/20
Kevin McDaniel	Director of Children's Services	26/10/20	27/10/20
Hilary Hall	Director of Adults, Health and Commissioning	26/10/20	28/10/20
Andrew Vallance	Head of Finance	26/10/20	
Elaine Browne	Head of Law	26/10/20	28/10/20
Mary Severin	Monitoring Officer	26/10/20	
Nikki Craig	Head of HR, Corporate Projects and IT	26/10/20	27/10/20
Louisa Dean	Communications	26/10/20	
Karen Shepherd	Head of Governance	26/10/20	27/10/20

REPORT HISTORY

Decision type: Audit and Governance Committee for noting	Urgency item? No	To Follow item? No
Report Authors:- Andrew Moulton, Assistant Director Governance; Wokingham Borough Council for the Shared Audit and Investigation Service and Chief Audit Executive, Tel no.07747 777298; Catherine Hickman, Lead Specialist, Audit and Investigation; Tel no: 07885 983378		

Shared Audit and Investigation Service
Royal Borough of Windsor and Maidenhead Performance Report

2020/21 Audit and Investigation Interim Progress Report
(1 April 2020 to 30 September 2020)

1. INTRODUCTION

- 1.1 This report summarises the work of the Shared Audit and Investigation Service from 1 April 2020 to 30 September 2020. There are three key areas of the services work; Internal Audit, Governance and Investigations.
- 1.2 Internal audit is a statutory function under the Accounts and Audit Regulations 2015 and it is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.3 A formal annual report presenting the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance is required as stated in the Public Sector Internal Audit Standards. The purpose of this interim report is to provide an update on the progress made against the delivery of the Audit and Investigation Plan at an interim stage (30 September 2020). This report provides details of the status of audits, i.e. those completed to date, at draft stage or work in progress with the assurance opinions given. In addition, it provides a summary of internal audit performance, planning and resourcing issues.
- 1.4 Investigation work involves the proactive prevention, detection and investigation of fraud, corruption and wrong-doing. The main focus of this activity is financial fraud committed against the council. However, the team can use their skills in other relevant cases i.e. disciplinary investigations.
- 1.5 The Lead Specialist, Audit and Investigation, Shared Audit and Investigation Service under the Regulation of Investigatory Powers Act 2000 (RIPA) is the Council's RIPA Co-Ordinating Officer responsible for oversight and control over RIPA applications. RIPA regulates the ways that government bodies, including the police, are allowed to carry out surveillance, which includes accessing any communications data, listening to phone calls, following people, taking photographs and intercepting e-mails.

2. INTERNAL AUDIT

2.1 Performance against the Internal Audit and Investigation Plan to 30 September 2020 is as follows;

- Appendix A(l) presents progress made against the 2020/21 Internal Audit and Investigation Plan between 1 April 2020 to 30 September 2020.
- Audit work in Quarters 1 and 2 has seen delays with the commencement of specific audit work being put on hold due to services responding to the impacts of Covid-19. The work of the team has been refocussed and reprioritised and a positive example is in respect of support provided to the Revenues and Benefits and Finance teams in respect of the Business Rate Grants process and associated risk mitigations. Due to the impact of the Covid-19 pandemic on the council, and further to conversations with various other Heads of Internal Audit, and taking into account other advice from professional bodies, we have been carefully considering what we need to achieve in 2020/21 with regards Internal Audit and Investigation work during these unprecedented times. We are mindful that a proportionate approach to Internal Audit must be taken to allow council staff and Members to focus on the recovery from the Covid-19 crisis and council priorities. A revised 2020/21 Audit and Investigation Plan was presented to this Committee on 14 September to reflect the need to be flexible to support the organisation and responding to new and emerging risks.

2.2 Table 1 below summarises the status of audits against the 2020/21 Audit and Investigation Plan as at 30 September 2020 and includes those audits completed from the 2019/20 financial year.

Table 1: Status of audits

Audit Status	Number of audits
Work in progress and carried forward to 2020/21	7
Draft Report	
Final Report	6
Total	13

2.3 Table 2 below summarises the audit opinions awarded for those audits finalised in the year 2020/21 to date. It is pleasing to note that one audit achieved the highest category of audit opinion.

Table 2 : Summary of audit opinions awarded

Overall Opinion	Summary of Audit Opinion	No of Audits
1	Complete and Effective	1
2	Substantially Complete and Generally Effective	3
3	Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated	2
4	There is no effective Risk Management process in place	0
Total		6

2.4 Management is given one month between the draft and final reporting stage to address any countermeasures and, where applicable, improve the overall audit opinion. There were no audits undertaken during the period where this option was utilised by management.

2.5 There are two audit reviews receiving the third category of audit opinion (Debtors, previously reported and Reconciliations) and none in the fourth category of audit opinion (as shown in Appendix A(I) – Legend Section) that have been completed to Final Report stage since the 2019/20 Annual Report submitted to the new Audit and Governance Committee on 14 September 2020 that were completed in the 2020/21 financial year. A summary of the audit review receiving the third category is as follows;

Debtors 2019/20

- The current audit opinion is Level 3 – management responses to the draft report were partially received as at end of September 2020 and the SAIS are currently working with the relevant managers to finalise this report by the end of October 2020;
- A revised Debt Recovery Policy including the Escalation Process was agreed by management in August 2020;
- Management consider that the revised Debt Recovery Policy has already had some impact, however, greater and continued success relies upon service areas actively engaging with the process.

- Management responses to date have provided a number of assurances:
 - Finance intends to review the approach to bad debt provision and Debtors more generally in 20-21;
 - Consideration will be given as to whether bad debts should be allocated to Service budgets rather than a centralised provision as an incentive for Service Areas to take greater responsibility for debt management.
 - Extensive work has been undertaken between the Revenues and Benefits service and Optalis to review the processes and define roles and responsibilities. This work was initially due to start in April 2020 but was delayed due to Covid;
 - Full implementation of the revised processes will be rolled out from 1 December 2020.
- The SAIS will follow up progress when undertaking the annual Debtors audit later in this financial year.

2019/20 Reconciliations (Finalised in 2020/21)

- Key Financial reconciliations have been identified and are audited at least bi-annually by internal audit. Any omissions or failures are therefore highlighted to Senior Management through the audit reporting process.
- This audit has a 3rd category opinion, as the controls around Service Area identification of key reconciliations, and ensuring they are taking place, are limited. This is not to say that key reconciliations are not taking place, it is more a question of not knowing whether they are or not. This exposes the Council to potential financial and reputational risk. In terms of rating the risks in the findings below, for those Service areas that have been audited recently, and/or where reconciliation activity is looked at as part of the Key Financial systems audits, the risk is reduced to moderate.
- All Service Leads agreed that it would be a worthwhile exercise to identify, record and monitor key reconciliations. There were, however, reservations about the resource implications of doing so, as this would not be a short task, and there may not be staff available to carry it out, or to complete the identified reconciliations on a regular basis. In order to facilitate this exercise, management suggested that there was:
 - a clear definition of what a key reconciliation is
 - a clear and consistent message about what is expected
 - consideration of the resources necessary to meet expectations.

- There was not a consensus view on where the overall responsibility should sit for ensuring that all key reconciliations are identified, recorded and monitored; a corporate view is therefore sought.
- There are 10 concerns identified in this Audit Report - 2 major, 8 moderate and 1 minor risk. The major risk concerns relate to the lack of:
 - formal identification, recording and monitoring of key reconciliation activity
 - a definitive list of properties for which RBWM is responsible

Grant Certification

2.6 Where a grant giving body requires an internal audit certificate before releasing payment, the team carries out work to verify and certify amounts that the Council can claim. Without this certification, grants may become repayable. Grants certified include:-

- Troubled Families Grant.
- Disabled Facilities Grant.
- Local Enterprise Partnership

2.7 Contingency work has been undertaken in respect of Reconciliations, the outcome of which is summarised above.

Outstanding management responses

2.8 There are no outstanding management responses to audit reports.

3. CORPORATE INVESTIGATIONS

3.1 The work undertaken by the Shared Service has included re-active investigations as well as developing pro-active fraud drives.

COVID Business Grant Fraud post assurance

- The Shared Service has been involved in the COVID Business Grant Fraud post assurance which has resulted in one case that is an attempted fraud for a company that has been identified as fraudulently claiming across the country and this has been referred to the Department for Business, Energy and Industrial Strategy (BEIS) and reported to the appropriate National Fraud bodies such as the National Anti Fraud Network and the Cabinet Office

(National Fraud Initiative). Other cases were found to be either local authority error or applicant error.

- Each application for these grants was checked by a revenues officer for verification on eligibility before payment was made. The Shared Service has worked closely with the Head of Revenues, Benefits, Library and Resident Services completing the Fraud Risk Assessment and the BEIS returns. As at 23rd July 2020, we sample tested 796 out of 1215 payments made as at 23/7/2020. Of which 286 were £10k and 510 were £25k. Queries were raised, investigated and cleared as part of this exercise.
- The Shared Service continues to work with the Revenues and Benefits section with regard to the post assurance requirements of BEIS for appropriate COVID grants made.

Empty Property Review

- Work has been undertaken during the first part of the year to investigate Council Tax Empty Property Relief. It should be noted that the properties identified in the Council Tax Empty Property Relief exercise as occupied that were previously shown as unoccupied feed in to the New Homes Bonus Scheme formula and may result in extra income in to the council through liable charges being raised for previous council tax liability.
- The number of letters sent out for the empty property review was 880 with 694 received back of which 344 of these, reporting changes in circumstances which contribute to the above.

4. REGULATION OF INVESTIGATORY POWERS ACT

- 4.1 No investigation cases have been undertaken during the first six months of 2020/21 that have required RIPA surveillance approval to be requested.

**2020/21 Royal Borough of Windsor and Maidenhead Internal Audit Plan Status
(as at 30 September 2020)**

AUDIT TITLE	DIRECTORATE	STATUS	FINAL AUDIT REPORT OPINION
2020/21 Audits			
Key Financial Systems			
Payroll	Resources	WIP	
Payroll (AfC)	Resources	WIP	
Creditors	Resources	WIP	
General Ledger	Resources	WIP	
Governance Building Blocks			
Risk Management	Cross Cutting	WIP	
Performance Management	Cross Cutting	WIP	
Key Operational Risks			
Data Protection & GDPR Compliance (Follow Up)	Cross Cutting	WIP	
Servicing the Business			
Grant Claims – including Troubled Families, Local Enterprise Partnership, Disabled Facilities Grant			C
Contingency			
Covid 19 Controls Review			
2019/20 Audits completed in 2020/21			
Key Financial Systems			
Debtors	Resources	FINAL	3
General Ledger	Resources	FINAL	1
Cash and Banking Arrangements	Resources	FINAL	2
Reconciliations	Managing Director	FINAL	3
Key Operational Risks			
Highways	Place	FINAL	2
Auditor Judgement			
Cheapside School	Children's Services	FINAL	2
Servicing the Business			
PSIAS Annual Self Assessment	Cross Cutting	FINAL	n/a

Audit Opinion Definitions

- 1** Complete and Effective
 - 2** Substantially Complete and Generally Effective
 - 3** Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated
 - 4** There is no effective Risk Management process in place
-

Legend

C - Certification
E - Exempt

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audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition



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

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audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ customerservices@cipfa.org \ www.cipfa.org

© March 2018 CIPFA

ISBN 978 1 84508 492 9

Designed and typeset by Ministry of Design, Bath
(www.ministryofdesign.co.uk)

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Acknowledgements

A sincere thanks to all those who have provided content, comment and feedback on this publication, including Keeley Lund, Kerry Ace, Alison Dewhirst and Alison Scott. Comments on external audit have been provided by David Aldous and Andrew Kendrick at the National Audit Office and Jon Hayes at Public Sector Audit Appointments, and we appreciate their input.

Thanks also to the audit committee members who have attended our training courses for providing their insight into the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.

A handwritten signature in black ink, reading "Diana Melville". The script is cursive and fluid, with the first name "Diana" and last name "Melville" clearly distinguishable.

Diana Melville

Governance Advisor, CIPFA

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CHAPTER 1

Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police* (2018) ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the [Accounts and Audit \(England\) Regulations 2015](#) state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit,

helping to ensure that it is adequate and effective. Both these elements are now enshrined in the [Public Sector Internal Audit Standards \(PSIAS\)](#) and the supporting [Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards \(LGAN\)](#).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)
- updates to the PSIAS in 2016 and 2017
- the [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014).

Legislation has also had an impact, in particular the [Local Audit and Accountability Act 2014](#), which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The [Policing and Crime Act 2017](#) enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

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

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
 - be satisfied that the authority's assurance 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
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process

- promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities 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
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

- 7 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 CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

CHAPTER 3

The purpose of audit committees

Extract from the Position Statement

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

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

Governance is defined in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) as follows:

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

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the [Police Reform and Social Responsibility Act 2011](#). Guidance for police audit committees is contained in the [Financial](#)

[Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018).

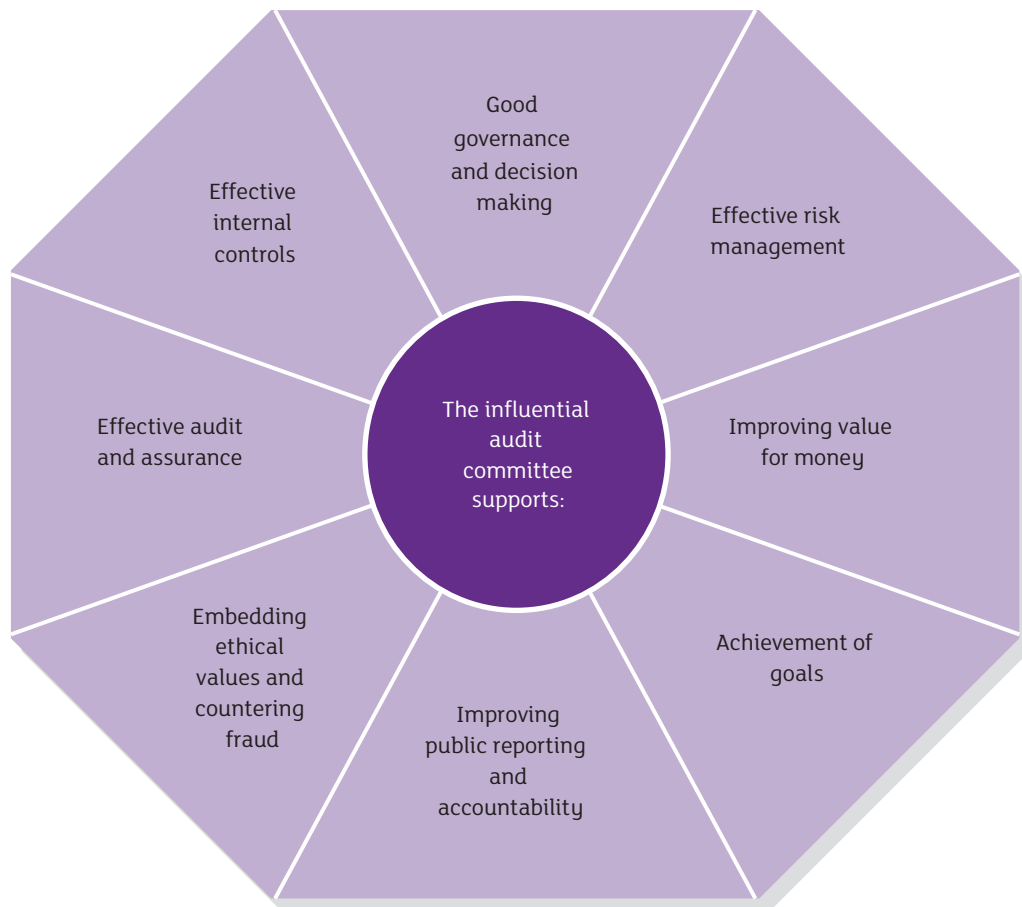
As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging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

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

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

Figure 3.1: The influential audit committee



Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.

The core functions of an audit committee

Extract from the Position Statement

- 4 The core functions of an audit committee are to:
- be satisfied that the authority's assurance 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
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

INTRODUCTION

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities](#) (CIPFA/Solace, 2016).
- [Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales](#) (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the [Accounts and Audit Regulations 2015](#) must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on

assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the [Accounts and Audit Regulations 2015](#), the [Accounts and Audit \(Wales\) Regulations 2014](#), the [Local Authority Accounts \(Scotland\) Regulations 2014](#) and the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set

out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

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

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

Oversee independence, objectivity, performance and professionalism

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with the PSIAS and the LGAN
 - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

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

Promote the effective use of internal audit within the assurance framework

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

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

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

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
 - overseeing the authority's risk management policy and strategy and their implementation in practice
 - overseeing the integration of risk management into the governance and decision-making processes of the organisation
 - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
 - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
 - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
 - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
 - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

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

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the [Police Reform and Social Responsibility Act 2011](#), the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance

against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the [Bribery Act 2010](#).

The [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as [Fighting Fraud and Corruption Locally](#) should also be considered, along with the [CIPFA Fraud and Corruption Tracker](#) (CFaCT) and [Integrity Matters](#) (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

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

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance [Internal Audit's Role in Counter Fraud](#) (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

EXTERNAL AUDIT

Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the [Local Audit and Accountability Act 2014](#).

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see [Guide to Auditor Panels](#) (CIPFA, 2015).

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

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

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

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive [guidance](#) from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

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

Understanding the potential threats to external independence

Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the [Revised Ethical Standard 2016](#) (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

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

Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
 - whether the external auditor has a good understanding of the authority
 - how the external auditor has responded to areas of audit risk
 - actions taken to safeguard independence and objectivity
 - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The [Accounts and Audit \(Wales\) \(Amendment\) Regulations 2018](#) require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must

publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

[Understanding Local Authority Financial Statements](#) (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the [Policing and Crime Act 2017](#). Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek

assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

GOVERNANCE AND ETHICAL VALUES

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

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

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.

Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the [Public Interest Disclosure Act 1998](#). As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.

Possible wider functions of an audit committee

Extract from the Position Statement

- 5** An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

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

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the [Localism Act 2011](#), English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the [Code of Ethics](#) (College of Policing, 2014)
- [Tone from the Top: Leadership, Ethics and Accountability in Policing](#) (Committee on Standards in Public Life, 2015)
- [Integrity Matters](#) (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

TREASURY MANAGEMENT

[Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however,

that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

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

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

CHAPTER 6

Independence and accountability

Extract from the Position Statement

- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 7** 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
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

INTRODUCTION

CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the [Local Government \(Wales\) Measure 2011](#). The Welsh Government has provided [statutory guidance](#) on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's [Financial Management Code of Practice for the Police Forces of England and Wales](#) (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The [Policing and Crime Act 2017](#) enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.

Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

The standards committee's role has been affected by the [Localism Act 2011](#) in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

Other relevant recommendations

The [Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015](#), a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

STRUCTURE AND INDEPENDENCE

Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The [CIPFA Survey on Audit Committees in Local Authorities and Police 2016](#) found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

Combined authorities

The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

Police

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

SHARED AUDIT COMMITTEES

Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

AUDIT COMMITTEES IN PARTNERSHIP

Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

DECISION-MAKING POWERS AND DELEGATIONS

All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated

decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

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

Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

[The Role of the Chief Financial Officer in Local Government](#) (CIPFA, 2016) and the [CIPFA Statement on the Role of Chief Financial Officers in Policing](#) (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in other parts of the public sector. The aim of this

is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an [Accountability System Statement for Policing and Crime Reduction](#) which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

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

Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

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

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

Holding the audit committee to account

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

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

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

Membership and effectiveness

Extract from the Position Statement

- 6** Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities 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
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the [Local Government \(Wales\) Measure 2011](#), which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the [Cities and Local Government Devolution Act 2016](#). The Act and the subsequent [Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#) require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent [report](#), ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. [Guidance on Audit Committees](#) (FRC, 2016) says that an audit committee should have at least three non-executive directors. The [Audit and Risk Assurance Committee Handbook](#) (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. [CIPFA's 2016 survey](#) of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

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

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the [Local Government and Housing Act 1989](#). Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

Voting rights of independent members

Local authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the [Local Government Act 1972](#), making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

Recruitment process

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be

clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

KNOWLEDGE AND EXPERIENCE

There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

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

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

Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

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

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

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

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective.

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

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

Areas of difficulty	Possible causes	Possible improvement options
The audit committee is little known or understood by those not on the committee	<ul style="list-style-type: none"> ■ Lack of feedback or reporting arrangements 	<ul style="list-style-type: none"> ■ Invite newly elected members to attend audit committee meetings ■ Review reporting arrangements ■ Consider an annual report that sets out how the committee has fulfilled its responsibilities
Recommendations made by the audit committee are not actioned	<ul style="list-style-type: none"> ■ Poor relationship between the committee and the executive or senior officers ■ The audit committee's recommendations are not adequately aligned to organisational objectives 	<ul style="list-style-type: none"> ■ A senior officer provides internal facilitation to support improved relationships ■ Improve knowledge and skills among audit committee members ■ Ensure better engagement with appropriate managers or the executive at an earlier stage
The audit committee fails to make recommendations or follow up on issues of concern	<ul style="list-style-type: none"> ■ A weak or inexperienced chair ■ Members are inexperienced or do not fully understand their role ■ Poor briefing arrangements prior to meetings ■ Committee reports fail to adequately identify the action required by the committee 	<ul style="list-style-type: none"> ■ Provide guidance and support ■ Improve briefing to the chair prior to the meeting ■ Ensure reports contain clear recommendations
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role	<ul style="list-style-type: none"> ■ The terms of reference do not adequately scope the work of the committee ■ Misunderstanding about the role of the committee ■ Inadequate guidance from committee secretary to the chair on its role 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance

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

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

Sector and devolved government guidance

PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Establishment of audit committee	<ul style="list-style-type: none"> ■ Required 	<ul style="list-style-type: none"> ■ Required 	<ul style="list-style-type: none"> ■ Required ■ It is recommended that this should be a combined body for both PCC and chief constable 	<ul style="list-style-type: none"> No guidance
Composition of the audit committee	<ul style="list-style-type: none"> ■ Committees must have at least one independent person as defined by guidance ■ The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical ■ The committee may not include an officer of the combined authority or a constituent council 	<ul style="list-style-type: none"> ■ Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor 	<ul style="list-style-type: none"> ■ Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable) 	<ul style="list-style-type: none"> No guidance

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

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specific guidance	<ul style="list-style-type: none"> ■ Cities and Local Government Devolution Act 2016 ■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016 	<ul style="list-style-type: none"> ■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011 	Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018)	N/A

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

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

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

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

Local authorities in England (including combined authorities and fire and rescue authorities)

Relevant government guidance	Accounts and Audit (England) Regulations 2015
Governance and risk management arrangements	Regulation 3 requires that: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Local authorities in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018
Governance and risk management arrangements	Regulation 5 requires the following: <i>5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—</i> <i>a) arrangements for the management of risk, and</i> <i>b) adequate and effective financial management</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices
Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government Measure (Wales) 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Local authorities in Scotland

Relevant government guidance	Local Authority Accounts (Scotland) Regulations 2014
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk</i>
Financial affairs and financial statements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the financial management of the authority is adequate and effective</i> Regulation 6 relates to accounting records and control systems Regulations 8, 10 and 11 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the authority to: <i>conduct a review at least once in each financial year of the effectiveness of its system of internal control.</i>

Approval of annual governance statements	Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control
Internal audit	Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
Review of effectiveness of internal audit	Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices

Local authorities in Northern Ireland

Relevant government guidance	Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
Governance and risk management arrangements	Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems Regulations 7 and 8 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control
Approval of annual governance statements	Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the 2016 Framework
Internal audit	Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard

Police in England

Relevant government guidance	Accounts and Audit (England) Regulations 2015 – see also the statutory guidance Financial Management Code of Practice for the Police Forces of England and Wales (FMCP) (Home Office, 2013 – due to be updated in 2018)
Governance and risk management arrangements	Regulation 3 requires the following: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk.</i>
Authority's financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body's system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Police in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018 – see also the FMCP
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk.</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices

Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Suggested terms of reference – local authorities and police

INTRODUCTION

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account.

Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

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

Statement of purpose

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 4 To review the AGS prior to approval 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.
- 5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk-related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 11 To monitor the counter-fraud strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

- 13 To approve the internal audit charter.
- 14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 15 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.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

- 19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - 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 QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 20 To consider the head of internal audit'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 – these will assist the committee in reviewing the AGS.
- 21 To consider summaries of specific internal audit reports as requested.
- 22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 23 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.
- 24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).
- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 28 To consider specific reports as agreed with the external auditor.
- 29 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 30 To commission work from internal and external audit.
- 31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 34 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.
- 35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 36 To publish an annual report on the work of the committee.

SUGGESTED TERMS OF REFERENCE – POLICE

There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

Statement of purpose

- 1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.
- 3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.
- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.
- 11 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 12 Annually review the internal audit charter and resources.
- 13 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 16 To consider the head of internal audit's 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.
- 17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the [Accounts and Audit Regulations \(Wales\) 2014](#) (see Appendix A).

- 19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

External audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.
- 21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 23 Consider specific reports as agreed with the external auditor.
- 24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.
- 26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

Accountability arrangements

The committee will do the following:

- 27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 28 Report to the PCC and the chief constable on its 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.
- 29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.
- 30 Publish an annual report on the work of the committee.

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> ■ 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 (Chapters 3 and 6)	<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 (Chapter 4)	<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
Internal audit (Chapter 4)	<ul style="list-style-type: none"> ■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and 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 (Chapter 4)	<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) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) 	<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 and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	<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

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<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
Counter fraud (Chapter 4)	<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 (Chapter 5)	<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

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)	<ul style="list-style-type: none"> ■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation's treasury management strategy – the organisation's policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017) 	<ul style="list-style-type: none"> ■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	<ul style="list-style-type: none"> Professional qualification in accountancy 	<ul style="list-style-type: none"> More able to engage with the review of the accounts and financial management issues coming before the committee Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues More able to engage with the external auditors and understand the results of audit work
Internal audit	<ul style="list-style-type: none"> Professional qualification in internal audit 	<ul style="list-style-type: none"> This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	<ul style="list-style-type: none"> Risk management qualification Practical experience of applying risk management Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	<ul style="list-style-type: none"> Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law 	<ul style="list-style-type: none"> Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> Direct experience of managing or working in a service area similar to that operated by the authority Previous scrutiny committee experience 	<ul style="list-style-type: none"> Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	<ul style="list-style-type: none"> Project management qualifications or practical knowledge of project management principles 	<ul style="list-style-type: none"> Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	<ul style="list-style-type: none"> Knowledge gained from management or development work in IT 	<ul style="list-style-type: none"> Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
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 weaknesses 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
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 meetings 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

APPENDIX D

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
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
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			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

Good practice questions		Yes	Partly	No
	■ counter fraud and corruption			
	■ supporting the ethical framework			
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?			
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?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
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?			

Membership and support

12	Has an effective audit committee structure and composition of the committee been selected? This should include: ■ 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)			
13	Have independent members appointed 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?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
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?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

Evaluating the effectiveness of 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 improvement 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/PCC and chief constable 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 		

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
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 		
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, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks 		
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, eg internal audit, risk management, external audit 		
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 		

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 		
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 		
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 both staff and governors 		

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 		

WORK PROGRAMME – AUDIT AND GOVERNANCE COMMITTEE

DIRECTORS	<ul style="list-style-type: none"> • Duncan Sharkey (Managing Director) • Adele Taylor (Director of Resources)
LINK OFFICERS & HEADS OF SERVICES	<ul style="list-style-type: none"> • Catherine Hickman (Lead Specialist Audit and Investigation) • Steve Mappley (Insurance and Risk Manager) • Ruth Watkins (Chief Accountant) • Andrew Vallance (Head of Finance) • Karen Shepherd (Head of Governance)

MEETING: 16th FEBRUARY 2021

ITEM	RESPONSIBLE OFFICER
Key Risk Report	Steve Mappley , <i>Insurance and Risk Manager</i>
2021/22 Audit and Investigation Plan	Catherine Hickman , <i>Lead Specialist Audit and Investigation</i>
Work Programme	Panel clerk

ITEMS SUGGESTED BUT NOT YET PROGRAMMED

ITEM	RESPONSIBLE OFFICER
2020/21 Annual Audit and Investigation Report	Catherine Hickman , <i>Lead Specialist Audit and Investigation</i>
Audited Annual Statement of Accounts	Andrew Vallance , <i>Head of Finance</i>
External Audit IAS260	Andrew Vallance , <i>Head of Finance</i>
Fraud Policies Refresh	Catherine Hickman , <i>Lead Specialist Audit and Investigation</i>

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