

# Public Document Pack



**COTSWOLD**  
DISTRICT COUNCIL

Monday, 17 July 2023  
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## AUDIT AND GOVERNANCE COMMITTEE

A meeting of the Audit and Governance Committee will be held at Council Chamber - Trinity Road on **Tuesday, 25 July 2023 at 5.00 pm.**

Rob Weaver  
Chief Executive

To: Members of the Audit and Governance Committee  
(Councillors Nigel Robbins, Clare Muir, Helene Mansilla, Patrick Coleman, Jeremy Theyer, Chris Twells and Len Wilkins)

Recording of Proceedings – The law allows the public proceedings of Council, Cabinet, and Committee Meetings to be recorded, which includes filming as well as audio-recording. Photography is also permitted.

As a matter of courtesy, if you intend to record any part of the proceedings please let the Committee Administrator know prior to the date of the meeting.

# AGENDA

1. **Apologies**  
To receive any apologies from members
2. **Substitute Members**  
To note details of any substitution arrangements in place for the meeting.
3. **Declarations of Interest**  
To receive any declarations of interest from Members and Officers, relating to items to be considered at the meeting.
4. **Minutes (Pages 5 - 10)**  
To confirm the minutes of the meeting of the Committee held on 27<sup>th</sup> April 2023.

5. **Public Questions**

A maximum of 15 minutes is allocated for an “open forum” of public questions at committee meetings. No person may ask more than two questions (including supplementary questions) and no more than two such questions may be asked on behalf of one organisation. The maximum length of oral questions or supplementary questions by the public will be two minutes. Questions must relate to the responsibilities of the Committee but questions in this section cannot relate to applications for determination at the meeting.

The response may take the form of:

- a) A direct oral response (maximum length: 2 minutes);
- b) Where the desired information is in a publication of the Council or other published work, a reference to that publication; or
- c) Where the reply cannot conveniently be given orally, a written answer circulated later to the questioner.

6. **Member Questions**

A maximum period of fifteen minutes is allowed for Member questions. Questions must be directed to the Chair and must relate to the remit of the committee but may not relate to applications for determination at the meeting.

Questions will be asked in the order notice of them was received, except that the Chair may group together similar questions.

The deadline for submitting questions is 5.00pm on the working day before the day of the meeting unless the Chair agrees that the question relates to an urgent matter, in which case the deadline is 9.30am on the day of the meeting.

A member may submit no more than two questions. At the meeting the member may ask a supplementary question arising directly from the original question or the reply. The maximum length of a supplementary question is one minute.

The response to a question or supplementary question may take the form of:

- a) A direct oral response (maximum length: 2 minutes);
- b) Where the desired information is in a publication of the Council or other published work, a reference to that publication; or
- c) Where the reply cannot conveniently be given orally, a written answer circulated later to the questioner.

7. **Internal Audit Annual Opinion (Pages 11 - 48)**

Purpose

To present a summary of the work undertaken by Internal Audit during 2022/23 and to give an overall opinion on levels of assurance resulting from this work.

Recommendation

To note the report.

8. **External Auditors Annual Report 2021/22 (Pages 49 - 90)**

Purpose

To receive a verbal update on the External Auditor's Annual Report on Cotswold District Council 2021/22.

Recommendation

To note the update.

9. **Draft Annual Governance Statement (Pages 91 - 110)**

Purpose

This report presents the Audit Committee with the new Annual Governance Statement and Action Plan for 2023/24.

Recommendation

To agree the revised Annual Governance Statement and Action Plan for 2023/24.

10. **Treasury Management Outturn (Pages 111 - 126)**

Purpose

To receive and discuss details of the Council's Treasury management performance for the period 01 April 2022 to 31 March 2023.

Recommendation

1. To note the Council's Treasury Management performance for the period 1 April 2022 to 31 March 2023.
2. To agree any comments to be passed to full Council when considering this item.

11. **Audit Committee Effectiveness (Pages 127 - 226)**

Purpose

To present to the Audit and Governance Committee CIPFA's Updated Audit Committee Guidance along with the self assessment and evaluation toolkit to enable Committee Members to identify any training needs to ensure they meet the principles as set out in the CIPFA guidance.

Recommendation

1. To note the documents
2. To recommend that members undertake a self-assessment, in readiness for the next meeting of the Committee, to identify any training needs to ensure that all skills identified in the CIPFA guidance can be met.

12. **Work Programme (Pages 227 - 230)**

Purpose

To note the work programme.

Recommendation

To note the work programme.

(END)

Audit and Governance Committee  
27/April2023



COTSWOLD  
DISTRICT COUNCIL

**Minutes of a meeting of Audit and Governance Committee held on Thursday, 27 April 2023.**

Councillors present:

Nigel Robbins (Chair)

Tony Berry

Patrick Coleman

Gary Selwyn

Tom Stowe

Stephen Andrews

Officers present:

Angela Claridge, Director of Governance and Development

David Stanley, Deputy Chief Executive and Chief Finance Officer  
Caleb Harris, Senior Democratic Services Officer

Ana Prelici, Democratic Services

Lucy Cater, Assistant Director (SWAP)

Michelle Burge, Chief Accountant

Emma Cathcart, Counter Fraud Manager

Adam Morley, Senior Auditor

Caleb Harris, Senior Democratic Services Officer

Ana Prelici, Democratic Services

External Speakers:

Pete Barber, Grant Thornton

## **191 Apologies**

The Committee received apologies from Councillor Nick Maunder.

## **192 Substitute Members**

There were no substitute members.

## **193 Declarations of Interest**

There were no declarations of interest from either members or officers.

## **194 Minutes**

The LGA peer review recommendations (which were contained on page 11 of the minutes from the previous meeting) were discussed. These included the change of the Committee's name to Audit and Governance Committee. The Committee agreed this subject to the approval of full Council.

**Voting record- 4 for, 2 abstention , 1 absence**

## **195 Public Questions**

There were no public questions.

#### **196 Member Questions**

There were no questions from Members.

#### **197 Member Training relating to Gloucestershire Wide Code of Conduct**

The Chair stated the order of the items would be different from the one in the agenda. This item was taken first at the Chair's discretion.

The Director of Governance and Development (Monitoring Officer) introduced the item. They highlighted that the Gloucestershire-wide code of conduct was adopted at the meeting of Council in March. As part of this, mandatory training was considered, and subsequently the item was brought to the Audit Committee for discussion.

The Officer's recommendation was that a register be kept for attendance at substantive training, such as Code of Conduct and Planning, and reported on at future meetings of the Audit Committee.

The Committee discussed what training would be provided to new members, and the director of Governance stated that an initial training be provided for new members, with a more in depth session later on for returning members.

Past examples of breaches of the code of conduct at other councils were discussed by the Committee. It was stated that while these instances were becoming increasingly uncommon, the examples illustrated the general need for code of conduct training.

Members also asked about the process for dealing with complaints. The Director of Governance stated that this could be found on the website, and that information would be shared with Committee Members after the meeting.

Members suggested that Planning training be made mandatory for all members, although accepted that the existing arrangements meant anyone wishing to substitute would be required to attend training. This meant in practice that it was already close to being mandatory, but members added this to recommendation I of the report. Members also highlighted the utility of attending these e.g. when an application is referred to Full Council.

Members addressed the limited availability of some members due to other commitments, and asked officers how it would be ensured that all members could attend. The Chief Finance Officer advised that members would be provided with a mixture of times, and that some sessions could be attended remotely where appropriate.

The Committee also asked that a programme of training be developed for Town and Parish Councils, building on the existing programme of work around Town and Parish Forums.

**RESOLVED:** That Audit Committee:

I. Agreed that training on the Members' Code of Conduct and Planning is made mandatory for all councillors and should be undertaken at least once in a councillor's term of office, within six months of their election.

2. Agreed to receive annual reports on member training courses undertake
3. Requested that the Constitution Working Group considers recommending to Council amendments to the Constitution to reflect the requirements for councillors to attend mandatory training.

**Voting record- 6 for, 0 abstention , 1 absence**

### **198 2021/2022 Statement of Accounts and Audit Opinion**

This item was taken second on the agenda at the Chair's discretion, to accommodate the external speaker from Grant Thornton.

Peter Barber from Grant Thornton introduced the item. The purpose of the report was to update the Committee on the findings of the external audit of the 2021/22 financial year as the audit is concluded.

Members discussed the performance of local audits, as was addressed in the report. The internal resource implications involved with delivering audits were discussed, and it was noted that the situation was worsened by the high national number of outstanding audits. In regard to internal resource, a number of solutions, such as relying on the Publica partnership, or Gloucestershire-wide solutions were discussed.

The Deputy Chief Executive stated that the Financial Reporting Council were looking at innovative ways that audits could be delivered in a timely manner, which included looking a potential overriding of audit standards.

The Committee asked whether there had been a reduction in staffing numbers which had impacted timescales. The Deputy Chief Executive stated he would report on this back to the Committee.

The Committee discussed the 31 May Deadline, which the representative from Grant Thornton stated would create a difficult situation, as the Auditors would not have capacity to action this until the end of June.

#### **RESOLVED: To**

- i) Note the Statement of Accounts Update Report, the Draft Audit Findings Report) and the revised 2021/22 Statement of Accounts
- ii) Note the indicative timetable for finalising the audit of the 2021/22 Financial Statements, receiving the Value for Money opinion, and receiving the final Auditor's Annual Report.
- iii) Delegate authority to the Deputy Chief Executive and Section 151 Officer and Chair of the Audit Committee and/or Leader of the Council to receive the Auditor's Annual Report and approve the final 2021/22 accounts.
- iv) Note the deadline for the draft accounts, public inspection period, and publication of accounts as set out in paragraph 4.2 of the report.

### **199 Annual Governance Statement - Action Plan Update**

The item was taken as third on the agenda.

The Chief Finance Officer (Section 151 Officer) introduced the item. The Chief Finance Officer added that some of the 'green' items on the 'Red Amber Green' (RAG) ratings in the report had experienced slippage and corrected the record accordingly;

- Item 1. 'Raising Awareness of the Contract Procedure Rules'- Amber
- Item 3. 'Budget management in regard to approval of expenses by only the approved line manager' - Amber/ Red subject to review by the S151 Officer
- Item 4.' Risk management training' – Amber as there has been delay in implementation due to both S151 Officer and Head of HR being relatively new in post
- Item 5. 'Compliance with Audit recommendations' - There was regular discussion around this, but the item was identified as Green/Amber as the process of flagging items for Audit still needed to be embedded
- Item 6. 'Business Continuity Plans development and testing'- Green/Amber

Members sought further detail on why the colour coding was wrong. The Chief Finance Officer stated that the colours had not been updated from the last report in error and that the updated report would be circulated to members.

Members asked about the new Members training plan and Officers stated that the final draft had been shared with the Members Development Steering Group.

It was also stated that the Independent Members would be joining the Committee at its next meeting in July.

**RESOLVED:** To note the 2022/23 Annual Governance Statement Action.

## **200** Accounting Policies

The Chief Finance Officer introduced the item. The purpose of the item was to present the accounting policies to be included in the 2022/23 Statement of Accounts. The report provided Members with the opportunity to review and approve the policies in advance of the preparation of the Statement of Accounts 2022/23. The Chief Finance Officer stated that approving the accounting policies in advance of the preparation of the accounts represents best practice.

Members asked why changes to policies had been undertaken. The Chief Accountant stated that this constituted a routine process of continual improvements, such as changes in CIPFA code and new Government Guidelines.

**RESOLVED:** to

1. Approve the draft accounting policies for 2022/23 included at Annex A and;
2. Agree that further amendments to the policies set out at Annex A (occurring subsequent to this meeting) are included within the draft (unaudited) and/or final (audited) Statement of Accounts when presented to the Committee.

## **201** CFEU Update Report (RIPA and IPA annual update)



The purpose of the report was to provide the Committee with assurance over the counter fraud activities of the Council. Direct updates would continue to be provided biannually. Work plans were presented to the Committee detailing progress and results for consideration and comment as the body charged with governance in this area. The report also provided the annual update in relation to the Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 (IPA) and the Council's existing authorisation arrangements.

The Head of Service, Counter Fraud and Enforcement Unit (CFEU) introduced the item, providing additional information on the following;

- The 2023/24 work plan was still being finalised, but details of new items to be included within the plan were detailed in the report. This included projects comparing data across the CFEU Partnership Councils.
- A new group had been formed; MAAF (Multi-Agency Approach To Fraud). The group which consisted of Gloucestershire Constabulary, Trading Standards, NHS, Victim Support and Local Government would be working to raise awareness amongst Councillors, Staff and residents to prevent fraud across the County.
- Work on business grants was ongoing but had moved to the final stages in relation to debt recovery and transfer.
- Details relating to the results following the review of the National Fraud Initiative (NFI) data matches would be shared at the next meeting.

The Head of Service, CFEU stated that the annual update on the Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) was included in the report. To assist with clarity regarding this topic, a 'question and answer' style summary would be circulated in due course.

Members asked why misconduct in regard to working hours was not dealt with as theft. The Head of Service, Counter Fraud and Enforcement Unit explained that this would be dealt with as a criminal investigation in addition to disciplinary action but would not be recommended unless it was proportionate and the individual was dismissed.

**RESOLVED:** To note the report and the work plan at Annex A.

## **202** Internal Audit Plan and Charter

The SWAP Internal Audit Services (SWAP) Assistant Director introduced the item. The purpose of the item was to present to the Audit Committee the Internal Audit Plan 2023/24 for consideration and approval and to present the updated Internal Audit Charter for consideration and approval. The Audit Plan was collated in consultation with Senior Management and Councillors, to provide a list of audits, utilising a risk based approach to prioritise work.

The SWAP Assistant Director explained that the Internal Audit Charter had not undergone any changes since the previous year.

The Committee asked whether there were sufficient days allocated for undertaking the audits and whether there was sufficient time. The Chief Finance Officer explained that this had been discussed with SWAP and that audit days would not be reduced. Any savings would be achieved through efficiency improvements.

Members identified Freedom of Information requests as a crucial element to audit, and declared that they hoped lead members would be involved in this. The SWAP Assistant

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Director explained that the review would be looking at the process, and would include response times, number of requests and number of complaints.

Members asked whether other Audit Plans from similar Councils that SWAP worked with were used as comparators. The SWAP Assistant Director explained the process and that the Chief Finance Officer at each Council still had high level of input regarding this. The Chief Finance Officer added that using sector comparators to select topics for audit added value to the process.

**RESOLVED:** To Approve the proposed Internal Audit Plan 2023/24 and Internal Audit Charter 2023/24

**Voting record- 6 for, 0 abstention , 1 absence**

### **203 Internal Audit Progress Report**

The Purpose of the item was to present a summary of the audit work concluded since the last meeting of the Committee. The Chair introduced the item.

Members noted the progress made on Development Management Recruitment and retention, but stated concerns over the delays in delivery of staff training. The Committee asked what would happen if there were concerns. The SWAP Assistant Director stated that if there was insufficient progress in an area, the audit team could look at these areas again, and that an update could be brought in the future.

**RESOLVED:** To note the reports and annexes.

### **204 Work Plan**

The Chair introduced the Work Plan. It was noted that under Agenda item 9, authority was delegated to the Chief Finance Officer to receive the Audit 2021/22 prior to the next meeting in order for the Committee to focus on new Audit opinion. The Chief Finance Officer stated that if there were any delays with this, then the Audit would be brought back to the committee to review.

**RESOLVED:** To note the work plan.

The Meeting commenced at 4.00 pm and closed at 6:18pm

Chair

(END)

# Agenda Item 7



**COTSWOLD**  
DISTRICT COUNCIL

Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>AUDIT AND GOVERNANCE COMMITTEE – 25 JULY 2023</b>
Subject	<b>INTERNAL AUDIT ANNUAL OPINION 2022/23</b>
Wards affected	N/A
Accountable member	Cllr Mike Evely, Cabinet Member for Finance Email: mike.evely@cotswold.gov.uk
Accountable officer	David Stanley, Chief Finance Officer Email: david.stanley@cotswold.gov.uk
Report author	Lucy Cater, Head of Internal Audit Email: lucy.cater@swapaudit.co.uk
Summary/Purpose	To present a summary of the work undertaken by Internal Audit during 2022/23 and to give an overall opinion on levels of assurance resulting from this work.  Due to the information contained in The Internal Audit Annual Opinion, it is deemed unnecessary to submit a separate quarterly monitoring report. Instead, we have produced a condensed version of the usual report which contains a summary of the work concluded since the last meeting of this Committee.
Annexes	<b>Annex A – INTERNAL AUDIT ANNUAL OPINION 2022/23</b> <b>Annex B – SUMMARY OF WORK COMPLETED SINCE APRIL 2023</b> <b>Annex C – Agreed Actions as at July 2023</b>
Recommendation(s)	<i>That the Audit and Governance Committee resolves to:</i> <i>1. Consider the report and comments as necessary</i>
Corporate priorities	Ensure that all services delivered by the Council are delivered to the highest standard.
Key Decision	NO
Exempt	NO



Consultees/ Consultation	N/A
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## I. BACKGROUND

The Annual Opinion Report 2022/23, Annex 'A', provides the Head of Internal Audit's (SWAP Assistant Director) opinion, on the adequacy and effectiveness of internal control within Cotswold District Council. The opinion is based on the adequacy of control, noted from a selection of risk-based audits carried out during the year, and other advice work on control systems including the proactive work of the service as it supports the control arrangements within change projects. The results of any external inspections also inform the opinion.

Throughout the year the Internal Audit service have measured the degree of control assurance within the systems, or elements of systems, audited or supported by way of control advice. Overall, the opinion is that a 'Low Reasonable' assurance level can be given for the controls in place, within the areas where audit activity has taken place, to safeguard these systems which in turn support the delivery of the Council's overall business objectives.

Where operational control issues were raised, the risks associated with the control issues raised, in the audit reports, are being actively managed by Management.

The report outlines how the Internal Audit function has supported the Council in meeting the requirements of the Public Sector Internal Audit Standards. These state that:

- "A relevant authority must 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."
- "A relevant authority must conduct, each financial year, a review of the effectiveness of the system of internal control."

The purpose of the Head of Internal Audit's Annual Opinion is to contribute to the assurances available to the Chief Executive and the Council which underpin the Council's own assessment of the effectiveness of the authority's system of internal control. This opinion is one component that the Council must take into account when completing its Annual Governance Statement.

Officers from SWAP will be in attendance at the Committee meeting and will be available to address Members' questions.

## 2. MAIN POINTS

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit is required to provide an annual opinion, based upon, and limited to, the work performed, on



the overall adequacy and effectiveness of the organisation's control arrangements. This is achieved through a risk-based programme of activities, agreed with management and approved, for 2022/23, by the Audit Committee, which should provide a level of assurance across a range of Council activities. The opinion does not imply that the internal audit service has reviewed all risks and controls relating to the Council or the systems it reviews.

A number of audits have been completed since the last meeting of this committee, and the reports are included at Annex B.

We continue to follow-up all agreed actions and a summary of the outstanding actions can be found at Annex C.

### **3. FINANCIAL IMPLICATIONS**

3.1 The Internal Audit Service is operating within the contract sum.

### **4. LEGAL IMPLICATIONS**

4.1 None directly from this report. Internal Audit reviews consider compliance with legislation relevant to the service area under review.

### **5. RISK ASSESSMENT**

5.1 Any weaknesses in the control framework, identified by Internal Audit activity, continues to threaten organisational objectives until recommendations are implemented.

### **6. EQUALITIES IMPACT**

6.1 Under equality legislation, the Council has a legal duty to pay 'due regard' to the need to eliminate discrimination and promote equality in relation to:

- Race
- Disability
- Gender, including gender reassignment
- Age
- Sexual Orientation
- Pregnancy and maternity
- Religion or belief

The Council also has a duty to foster good relations, and to consider the impact of its decisions on human rights. The law requires that this duty to pay 'due regard' is demonstrated in the decision making process. Therefore your report should contain a



statement as to whether the recommendation has a particular impact on any of the above groups

Any reports which relate to new policies, procedures or services or changes to policies, procedures or services must be accompanied by an appropriate equalities impact assessment (EIA). You can access further guidance and the EIA template [via the portal](#) and the Council's Equality Policy [on the website](#).

## 7. BACKGROUND PAPERS

7.1 The following documents have been identified by the author of the report in accordance with section 100D.5(a) of the Local Government Act 1972 and are listed in accordance with section 100 D.1(a) for inspection by members of the public:

- Internal Audit Progress Reports

These documents will be available for inspection online at [www.cotswold.gov.uk](http://www.cotswold.gov.uk) or by contacting democratic services [democratic@cotswold.gov.uk](mailto:democratic@cotswold.gov.uk) for a period of up to 4 years from the date of the meeting.

(END)

# Cotswold District Council

## Internal Audit Annual Opinion Report 2022/23

# Internal Audit Annual Opinion – 2022/23: ‘At a Glance’

## Annual Opinion



There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.

## The Headlines



**Significant risks were identified in respect of the administration of Procurement Cards and within the Revenues and Benefits Audit**

Progress is being made on the implementation of the agreed actions, which Internal Audit are monitoring.



**39 reviews delivered as part of the 2022/23 Internal Audit Plan.**

Includes assurance, advisory, follow up reviews and other involvement. 2 reviews are at draft report stage and 5 are in progress. Furthermore, we continue to support the Council with ongoing projects and attend corporate meetings.



**Internal Audit staff supporting the Council.**

Auditors continue to support the Council, by attending project meetings and when necessary conducting specific tasks for the Councils e.g. business grant bad debt review and reconciliation.



**A number of historic agreed actions remain outstanding, along with actions agreed during 2022/23.**

We will continue to follow-up all agreed actions.



**Chief Internal Auditor Grant Certification**

Five reviews were undertaken by the Chief Internal Auditor to sign off on grant monies received by the Council. Work undertaken in these areas is also used to inform our annual opinion.

Assurance Opinions	2021/22	2022/23
Substantial	5	4
Reasonable	10	5
Limited	0	3
No	0	0
Support to the Council	6	6
Grant Certification	2	4
Advisory	7	8
Follow-Up	2	1
Agreed Actions	2021/22	2022/23
Priority 1	0	3
Priority 2	13	11
Priority 3	8	8
<b>Total</b>	<b>21</b>	<b>22</b>



## Executive Summary

Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.



### Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
  - the effectiveness of risk management processes; and
  - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

# Executive Summary

## Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit Committee and Senior Management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line – functions that own and manage risk.
- the second line – functions that oversee or specialise in risk management, compliance.
- the third line – functions that provide independent assurance.

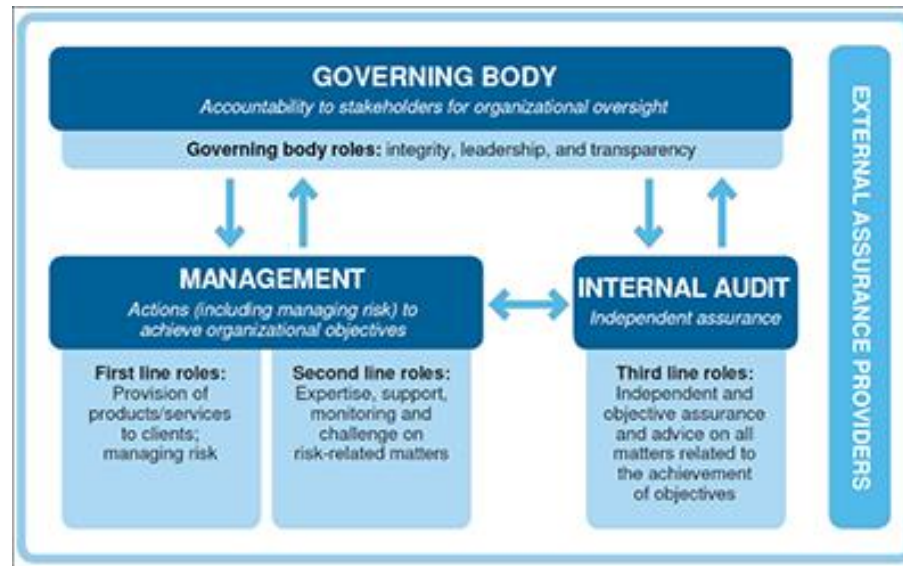


## Background

The Internal Audit service for Cotswold District Council is provided by SWAP Internal Audit Services. The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. This report summarises the activity of the Internal Audit team for the 2022/23 year.

The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines model shown below.



The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.



## Annual Opinion

On the balance of our 2022/23 audit work for Cotswold District Council, enhanced by the work of external agencies, I am able to offer a **Low Reasonable Assurance** opinion in respect of the areas reviewed during the year.

Audit work is planned to ensure that sufficient assurance will be available to inform the annual opinion as well as supporting the three key principles:

- Rebuilding trust and confidence in the Council
- Providing value for money for our residents and businesses
- Listening to the needs of our community, and acting on what we hear

And the six key priorities:

- Deliver the Highest Standards of Services
- Respond to the Climate Crisis
- Provide Socially Rented Homes
- Make our Local Plan Green to the Core
- Support Health and Well-being
- Enable a Vibrant Economy

That are defined, and underpin, CDC's Corporate Plan 2020/2024 (updated Spring 2022)

Our audit work supports each of these principles, and priorities, whether as an assurance audit, an advisory piece of work, ad hoc requests, or support to the Council.

The professional requirements of PSIAS have remained unchanged and in line with these, audit priorities have been agreed throughout the year and this work supports the annual opinion.

The Annual Opinion is based on information obtained from multiple engagements and sources, the results of which, when viewed together, provide an understanding of the organisation's governance arrangements, risk management processes and internal control environment and facilitate an assessment of overall adequacy and effectiveness. Opinions are a balanced reflection across the year and not a snapshot in time. In forming this opinion, the following sources of information have been used:

- *Completed audits which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.*
- *Observations from consultancy / advisory support.*
- *Follow up of previous audit activity, including agreed actions.*
- *Grant certification work.*
- *Assurances from other key sources and providers, including third parties, regulator reports etc.*

Additional work performed to carry out assurance work on risks associated with the continued pandemic were:

- *Completed the Business Grant Post Payment review with the Head of Service, CFEU*
- *Supported the Council in respect of the recovery of Business Grant Overpayments and data to be submitted to BEIS*
- *Reconciliation of Business Grant Recovery data to the ledger*

Alongside direct internal audit work, the HIA can also place reliance on:

- *Work and investigations undertaken by the Council's Counter Fraud and Enforcement Unit*
- *Updates and PSN certification undertaken by the Council's ICT Team*
- *Review undertaken by Business Manager – Corporate Responsibility on Mangers' Assurance Statements 2022/23*

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control.

- *Business Continuity*
- *Continuous assurance*
- *Key financial audits*
- *Information governance and security*
- *Key front line services*

*Furthermore the Head of Internal Audit, or member of the Audit Team is an attendee at the following meetings:*

- *Procurement and Commissioning Group*
- *Health and Safety Working Group*
- *Environmental Services Improvement Programme*
- *Corporate Governance Group*



# Summary of Audit Work 2022/23

## Definitions of Corporate Risk

### High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

### Medium Risk

Issues which should be addressed by management in their areas of responsibility.

### Low Risk

Issues of a minor nature or best practice where some improvement can be made.



## Significant Corporate Risks

Our audits examine the controls that are in place to manage the risks that relate to the area being audited. We assess the risk at a 'Corporate' level once we have tested the controls in place. Where the controls are found to be ineffective and the 'Corporate risk' as 'High' these are brought to the Audit Committee attention.

We identified significant weaknesses in the administration of procurement cards and six actions were agreed.

We also identified significant weaknesses within Revenues and Benefits audits whereby overpayment of Housing Benefits was not being recovered and a significant value of credits were being held on Council Tax Accounts.

Audit reviews completed during the year identified weaknesses in process / systems that should be addressed, including Climate Change, Treasury Management and Business Continuity.

A new process for planning validation was introduced and although not completely implemented at the time of the audit, a number of observations were made where improvements could be made in the process. Several suggestions were also presented in the Wellbeing Support to Staff Audit to help ensure staff are supported appropriately in the event of a 'public' fallout.

We have also continued to follow-up all agreed actions made in previous years audits. A number of agreed actions remain outstanding, therefore we have introduced a process whereby the CFO receives a monthly report of all agreed actions which can be followed up with Publica.

All audits, and progress against agreed actions, have been reported throughout 2022/23 to the Audit Committee.

# Summary of Audit Work 2022/23

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

## Assurance Definitions

<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.



## Summary of Audit Opinion

The following two charts summarise the audit opinions and audit work, and involvement, during 2022/23

Table 1 indicates the spread of assurance opinions across our work during the past year.

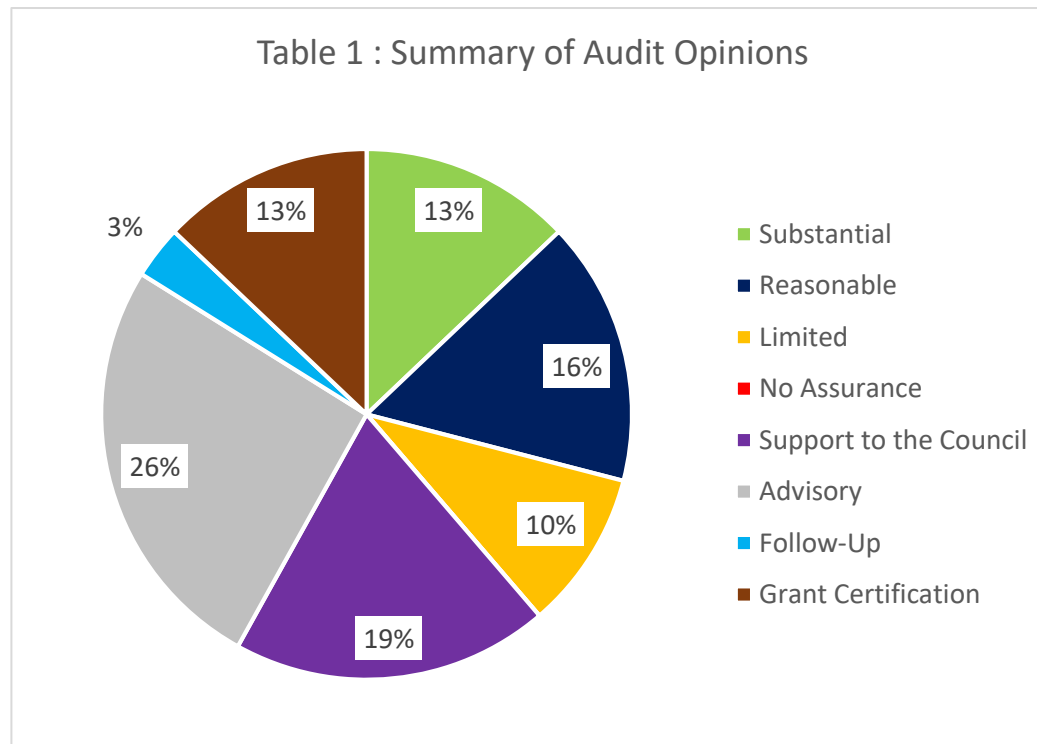
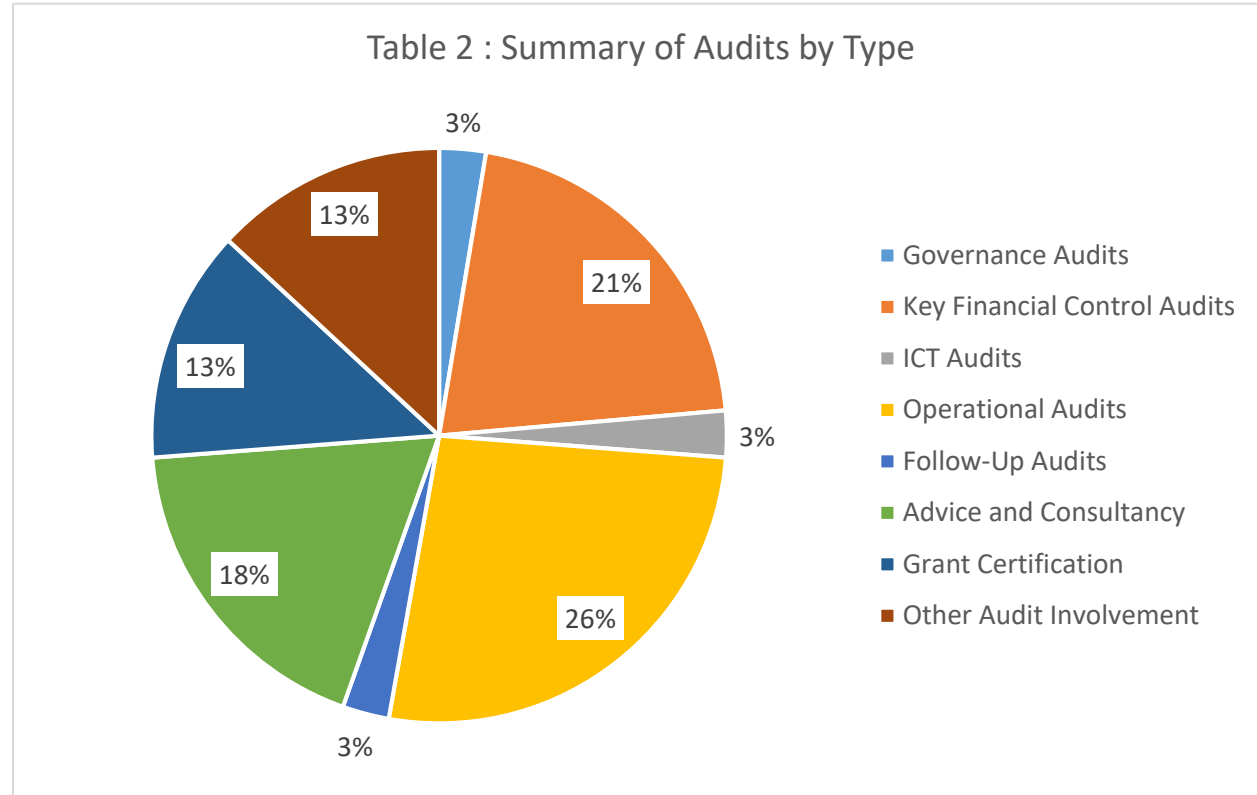


Table 2 indicates the audit work by type.





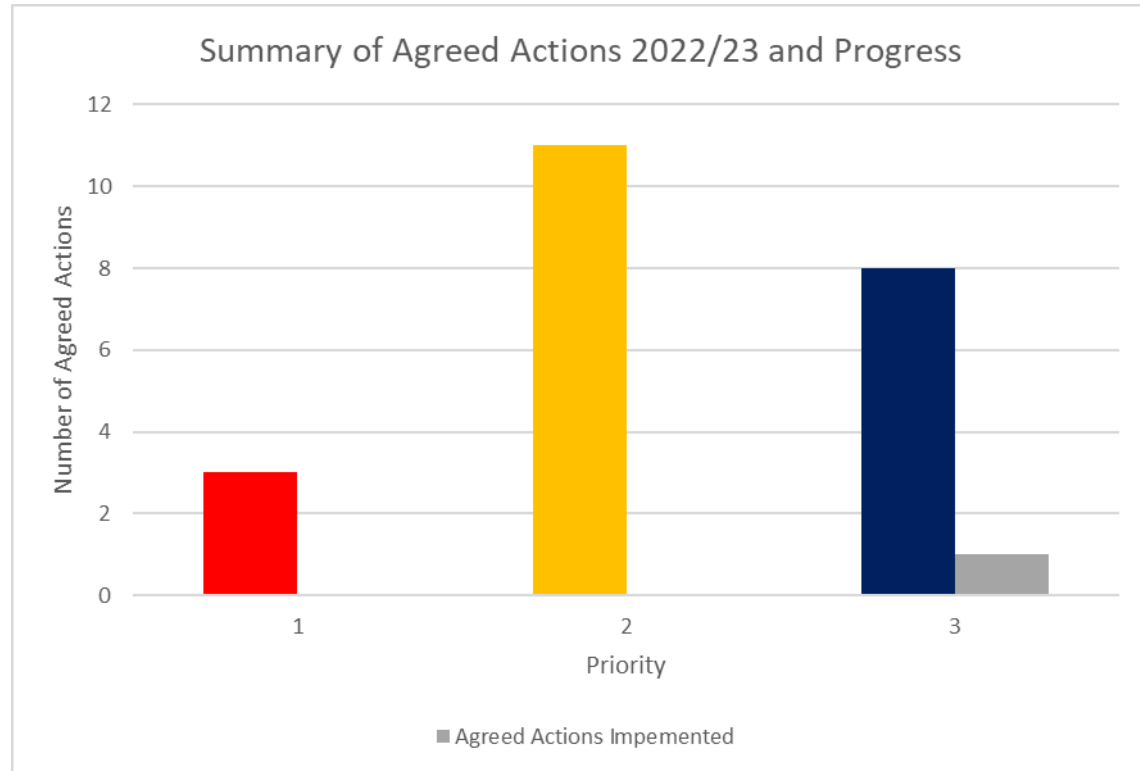
# Summary of Audit Work 2022/23

## SWAP Performance - Summary of Audit Actions by Priority



## Priority Actions

We rank our actions on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of major concern requiring immediate corrective action



### Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



### Added Value

Throughout the year, SWAP strives to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

#### **Corporate Groups**

During the year we have attended a number of corporate groups to act as a 'critical friend'.

#### **Benchmarking**

During the year we have provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN). This data is useful for services to develop and improve their own systems and processes so that business objectives can be achieved with continually decreasing resources.

#### **News Roundup**

We produce a fortnightly newsletter that provides information on topical areas of interest for public sector bodies.

#### **Client Liaison**

We have recently initiated Client Liaison, whereby the Auditors meet regularly with Business Managers to discuss potential operational risks and issues, identify areas for audits and plan up-coming audits.

#### **Audit Protocol**

We launched an audit protocol which defines the role of the audit team and what is required for an audit. The aim of the protocol is to improve the audit process for our audit contacts and to ensure we can deliver an excellent audit in an efficient and effective manner.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



## SWAP Performance

SWAP’s performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for CDC for the 2022/23 year are as follows:

Performance Target	Performance
<b>Overall client satisfaction</b> <i>did our work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence</i>	100%
<b>Value to the organisation</b> <i>client view of whether our audit work met or exceeded expectations, in terms of value to their area</i>	100%

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance of PSIAS.

Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP’s Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

## Summary of Internal Audit Work 2022/23

Audit Type	Audit Area	Status	Opinion	No of Actions
<b>2022/23 Finalised and Completed Reviews</b>				
Operational	Procurement Cards	Final Report	Low Limited	6
ICT	Vulnerability Management	Final Report	High Reasonable	1
Operational	Business Grant Funding – Post Payment Assurance	Final Report	High Substantial	0
Operational	Election Expenses – Treatment of VAT	Final Report	Medium Substantial	1
Operational	Planning Validation Process	Final Position Statement	N/A	0
Governance	Climate Change (Strategic)	Final Report	Low Reasonable	3
Operational	S106 Agreements and Funds	Final Report	High Reasonable	2
Operational	Accounts Payable – Qtly Review	Continuous	High Substantial	0
Key Financial Control	Council Tax and National Non-Domestic Rates	Final Report	High Limited	2
Key Financial Control	Housing Benefit and Council Tax Support	Final Report	High Limited	1
Key Financial Control	Treasury Management and Cashflow Forecasting	Final Report	Medium Reasonable	2
Key Financial Control	Accounts Receivable	Final Report	Low Substantial	1
Key Control	HR – Wellbeing Support available for Staff	Final Position Statement	N/A	0
Operational	Business Continuity Management – Services Reviewed Elections and Revenues and Benefits	Final Report	High Reasonable	3

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## Summary of Internal Audit Work 2022/23

Audit Type	Audit Area	Status	Opinion	No of Actions
Support	Business Grant Funding – Post Payment Review	Complete	Support to the Council	N/A
Support	Business Grant Funding – Aged Debt	Complete	Support to the Council	N/A
Support	Leisure and Culture Contract Procurement	Complete	Support to the Council	N/A
Grant Certification	Disabled Facilities Grants	Complete	Grant Certification	N/A
Grant Certification	Test and Trace Payment Scheme	Complete	Grant Certification	N/A
Grant Certification	Contain Outbreak Management Fund	Complete	Grant Certification	N/A
Grant Certification	Biodiversity Net Gain Grant	Complete	Grant Certification	N/A
Follow-Up	Follow-Up of All Agreed Actions	Complete	Follow-Up	N/A
Other Audit Involvement	Working with the Counter Fraud and Enforcement Unit	Complete	Support to the Council	N/A
Other Audit Involvement	Management of the IA Function and Client Support	Complete	Support to the Council	N/A

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## Summary of Internal Audit Work 2022/23

Audit Type	Audit Area	Status	Comment
<b>Draft Reports</b>			
Key Financial Control	Payroll	Draft Report	
Key Financial Control	Accounts Payable	Draft Report	
<b>In Progress</b>			
Operational	Property Services		
Operational	Estates Services		
Key Financial Control	Bank Reconciliation		
Operational	Applicant Tracking System		
Operational	Taxi Licensing Safeguarding		
Grant Certification	Carbon Data 2021/22		
<b>Ongoing Audit Support / Involvement</b>			
Advisory	Support to the Agile Working Project		Support complete for 2022/23
Advisory	Environmental Services Improvement Programme		Support complete for 2022/23, will continue into 2023/24
Advisory	Procurement and Commissioning Group		Support complete for 2022/23, will continue into 2023/24
Advisory	Health and Safety Working Group		Support complete for 2022/23, will continue into 2023/24

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## Summary of Internal Audit Work 2022/23

Audit Type	Audit Area	Status	Comment
Support	Co-Ordination Team		Support complete for 2022/23, will continue into 2023/24
Support	Active Cotswolds		Support complete for 2022/23, will continue into 2023/24
Support	Elections		Support complete for 2022/23, will continue into 2023/24



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# Cotswold District Council

## Report of Internal Audit Activity

### Summary of Work Completed since April 2023

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The following information provides a brief summary of each audit review finalised since the last Committee update

# Council Tax and NNDR, Housing Benefit and Ctax Support – Final Audit Report – April 2023

## Audit Objective

To ensure key financial system controls are operating effectively for Council Tax and Business Rates, Housing Benefits and Council Tax Support and that opportunities for error, fraud or corruption are minimised.

### Assurance Opinion – Council Tax and NNDR



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

### Number of Actions

Priority	Number
Priority 1	0
Priority 2	2
Priority 3	0
Total	2

### Risks Reviewed

The Council does not collect all Council Tax and Business Rates due as a result of errors, omissions or fraud leading to financial loss or reputational damage.

### Assessment

Medium

### Assurance Opinion – Housing Benefit & Council Tax Support Scheme



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

### Number of Actions

Priority	Number
Priority 1	1
Priority 2	0
Priority 3	0
Total	1

### Risks Reviewed

Housing Benefits and Council Tax Support claims are not processed correctly, completely and on a timely basis as a result of errors, omissions or fraud leading to financial loss or reputational damage to the Council.

### Assessment

Medium

## Key Findings

### Housing Benefits Overpayments are not recovered.

Where benefit overpayments are made and cannot be recovered through ongoing benefit payments, invoices must be raised to recover the debt. Invoices have not been raised for HB overpayments since the migration to the Civica system which was completed in June 2021.

Report Date	Total No. of Overpayments	Total Amount
Nov 2022	622	£381,846

The data provided shows that these amount to significant amounts of money now owed to the Council and represent a potential financial loss if the monies owed are not recovered.

Officers advised that they are planning to raise invoices where appropriate, but the specific approach is to be agreed with the Council's management team.

### Revenues: Accounts with Inhibits (supressed accounts) are not actively reviewed.

The Revenues Operational Lead advised (Nov 22) that the reporting and review of accounts with inhibits had not regularly been performed since the last annual billing process (Jan 22).

The regular and independent review of inhibits should be restarted to ensure the status of these accounts are valid and correct.

## Audit Scope

The planned scope of the audit included:

- CTax/NNDR
  - Recovery, enforcement and write off processes.
  - Collections -Payments and Direct Debit collections.
- HB & CTS – Overpayments, Recovery, Payments/Plans, write off processes.
- Key Controls for all systems – Financial Reconciliations, independent review of exceptions eg. supressed accounts, accounts in credit, overpayments, refunds, etc.
- Follow up of previous agreed actions.

Analysis was performed on the reports requested, in conjunction with walkthrough and sample testing to form an opinion on the effectiveness of the controls in operation.



**Revenues: Significant credit balances remain in closed accounts.**

We were advised customer service officers are tasked with reviewing and actioning closed accounts with credit balances. And that it is recognised the work is undertaken during quiet periods. A report provided in November 2022 shows the total monies in closed accounts amounted to £918,498.

Failure to proactively identify and refund customer overpayments increases risk of reputational damage as this is an area often highlighted in the media. Also, this impacts on the councils' financial statements. Therefore, these accounts should be reviewed and actioned as soon as possible.



**Revenues – Collections, Arrears & Recovery and Write Offs**

Sample testing of Council tax and NNDR arrears recovery did not highlight any significant concerns. However, the progression of one NNDR case occurred due to the payments being allocated to the suspense account. Whilst circumstances where bulk payments across multiple accounts sometimes cause this scenario, it highlights the importance that the suspense account is regularly monitored and correctly cleared.

Write off authorisation controls were not fully reviewed and therefore will be followed up in the next audit.

**Additional Information & Next Steps**

Page 36 Due to the timing of the audit coinciding with the annual billing exercises it was agreed to pause this audit and provide this interim report. Areas not adequately covered in the review will be deferred to the 2023/24 Audit which will be brought forward sufficiently so that it does not interfere with the service area's important and busy periods.

The areas which will be re-covered are:

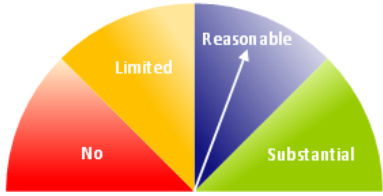
- Additional NNDR write-off evidence is to be reviewed to provide assurance over the authorisation controls.
- The completion of Council Tax and NNDR reconciliations have identified actions in previous audits. Progress of these were not followed up during this audit, therefore will be form part of the next audit.
- Alignment of processes. It is apparent there continues to be significant differences in some processes and approaches between the service areas. Efficiencies may be seen if, where possible, the most effective approaches are adopted across the whole service. Inconsistent processes were identified as an action last year and will therefore be followed up in more detail during the next audit.
- Follow up of any outstanding agreed audit actions.

To address the matters raised in this report, the Council have commissioned SWAP to undertake a 'Lessons Learned' & 'Next Steps' review of the Revenues & Benefits Service.

# Treasury Management and Cashflow Forecasting – Final Audit Report – April 2023

## Audit Objective

To assess the processes and oversight in place ensuring cashflow forecasting is accurate, up to date and reported.

Assurance Opinion		Number of Actions		Risks Reviewed	Assessment
	<p>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</p>	Priority	Number	<p>Inadequate cashflow forecasting may lead to poor decisions on investments and borrowing, resulting in financial loss to the Council.</p>	<p>Low</p>
		Priority 1	0		
		Priority 2	1		
		Priority 3	1		
		Total	2		

## Key Findings

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Cashflow monitoring and forecasting is performed daily. Previously ad hoc meetings were held, but this will now be formalised to regular quarterly meetings with the Chief Finance Officer. Informal meetings with the accountants will continue as and when required. Presently, whilst occasional, a formal variance analysis between forecasted and actual recorded cashflow is not performed on a regular basis. A regular analysis of previous forecasts where there have been discrepancies against actuals may help determine their root cause and identify areas of improvement for future forecasts.



Currently a single monitoring spreadsheet is updated through the forecasting cycle, effectively overwriting historical forecasted estimates. Prior to major updates (usually monthly) save previous copies of the spreadsheet to i. help with variance analysis ii. Help in case changes or errors are made to formulas.



Treasury Management Strategies are approved in accordance with the budget setting process. Regular reports and cashflow forecasts are presented to senior management. A Treasury Management Outturn report is presented to members each year. Investments are made within the Strategy guidelines.

## Audit Scope

A review was completed in the following areas:

- Processes around cashflow forecasting to include roles and responsibilities.
- Accuracy, ongoing monitoring, and reporting of cashflow changes.
- Authority to determine and change investments in line with Council strategy.

We held discussions with the Treasury Accountant. And reviewed evidence provided to support discussions held.

## Conclusion

Cashflow forecasting has many dependencies and often relies on historical data. Whilst processes have been developed to improve communication amongst the Treasury Management Team, Accountants, and the Chief Financial Officer, more frequent meetings will ensure areas of significant changes to receipts or expenditure are captured and accounted for within the cashflow forecasting process.

There are no PIs or targets in place for Treasury Management or cashflow forecasting. Introducing a liquidity PI may help to manage cashflow forecasting.

Resource changes during the year impacted the team's ability to perform the regular reconciliations, however reconciliations are now being performed on a quarterly basis.

# Accounts Receivable – Final Audit Report – April 2023

## Audit Objective

To review Accounts Receivable processes, key controls and to follow-up on previously agreed actions.

## Assurance Opinion



A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

## Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	1
<b>Total</b>	<b>1</b>

## Risks Reviewed

The Council suffers financial loss as a result of not being subject to appropriate debt management and write off procedures.

## Assessment

Low

## Key Findings



Write-off testing demonstrated service areas complete a write-off request form which is processed by AR officers. The AP&R Team Leader obtains documented S151 approval for all write-offs. Cash receipting income is uploaded into Business World daily by the Exchequer Team. Guidance is available for new debtor accounts and requesting credit notes; requests come from the service area and the AR team action (subject to checks). Previous agreed actions regarding the distribution of aged debt reports and write-off separation of duties are now complete.



A previously agreed action regarding debt management, recovery and write off guidance is in progress and once updated to reflect current practices, will be communicated to all budget holders. Detailed AR guidance (2015) is available on the Publica portal for Budget Holders to refer to.

## Audit Scope

This review covered the following areas:

Policies and procedures; Segregation of duties; Periodic reconciliations; Cash receipting system controls; Debt recovery controls; Debtor accounts/credit note controls; Write off controls; Reporting and monitoring; Agreed actions follow-up.

Discussions were held with key AR officers.

## Further Comments

Debt recovery was paused during the pandemic with no clear resumption point. There is a common misconception that debt recovery is just an AR responsibility. The AR team produce and issue, reminder notices to customers and advise and support service areas. However, pursuing debts and taking action to recover debts on behalf of the Councils is a Budget Holder responsibility as confirmed within *section 15.1* of the Council's financial rules. Consideration should be given to allocating resource to develop finance induction training to enable relevant Officers to have a basic understanding of key financial requirements.

Customer accounts are either closed or parked on BW, but are not archived. The ICT Audit and Compliance Manager has been made aware of this finding for further investigation to mitigate any potential GDPR concerns.

Officers continuously develop procedures, guidance and processes to support task consistency for Publica and the Partner Councils.

# Business Continuity – Final Audit Report – May 2023

## Audit Objective

To ensure that the organisation has planned for and can maintain an agreed level of business continuity to priority services in the event of a critical ICT incident.

## Assurance Opinion



A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

## Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	2
<b>Total</b>	<b>3</b>

## Risks Reviewed

In the event of a major disruption to ICT availability, the over reliance on the ICT department to maintain corporate business continuity and a lack of preparedness by service areas may result in a loss of service continuity across the Council.

## Assessment

**Medium**

## Key Findings

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The Revenues and Benefits service use a combined BCP which includes only high-level detail of critical functions for all the combined areas. Each team manager should own their own separate plans to regularly review and update. The plans should detail lower-level critical processes, their dependencies, and mitigating actions in the event of the loss of ICT availability. Identified mitigating actions to continue service should be documented either within the plan itself or ancillary documents. The use of individual plans should help accomplish this.



It is important BCPs are regularly tested to ensure familiarity with plans and to identify gaps or areas for improvement. A successful Publica corporate table-top exercise was performed in October 2022. Some areas for discussion to be given further thought were raised during the test and it proved to be a useful exercise. It would be prudent for all services to hold their own individual walkthrough exercises to identify any gaps or potential mitigating actions in their own plans to drive improvement.



Service areas may rely on the advice and guidance of the ICT team to identify technical constraints and potential solutions. These discussions did start in the past although progress stalled. We recognise that resource is of limited supply, however, in the event of an incident resources will be further stretched. It is therefore best to find time to identify potential mitigating solutions now, rather than when they are needed in an extremely pressurised environment. Senior management should look to prioritise services in alignment with critical business processes identified in the corporate BCP.

## Audit Scope

This year, BCP plans of Electoral Services and Revenues and Benefits were reviewed. These controls covered were:

- Completion and approval of Service Area Business Continuity Plans (BCP).
- Identification of critical business processes and their ICT dependencies within that service area and documentation within the BCP.
- Identification and documentation of mitigating factors or workarounds to ensure continuity of service during the loss of ICT availability.
- Identification of any differing requirements between Partner Councils (if applicable).
- BCP review and testing.

## Further Information

An Electoral Services Manager at a Partner Council has spent time working through her team's BCP to identify mitigating factors for different scenarios, including the loss of ICT. It is a good piece of work which continues to be developed. It would be of benefit to collaborate, and potentially use as an example for the wider organisation.

# Section 106s and CIL (Community Infrastructure Levy) – Final Audit Report – May 2023

## Audit Objective

To provide assurance on the effectiveness of the arrangements for Section 106 and CIL (Community Infrastructure Levy)

### Assurance Opinion



There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

### Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	1
Total	2

### Risks Reviewed

1. S106 and CIL contributions are not received by the council and/or obligations are not met by developers, leading to reputational damage and financial loss.

Low

2. Monitoring arrangements are unclear, leading to missed deadlines and unspent/returned monies.

Medium

### Key Findings



Reporting to Members on the position of S106/CIL within the authority currently consists of only the annual Infrastructure Funding Statement as per government requirements. This is published in December each year. However, the reporting period contained covers the previous financial year, meaning that this data is already nine months old by the time it is seen by Members.



Enquiries indicate that there is no formal sign off of the reconciliation of S106 and CIL balances between Exacom and Business World. This represents a weakness in control and heightens the likelihood of misstatement or fraud.

### Audit Scope

The audit will sought to confirm that:

- S106 and CIL agreements are appropriately recorded.
- Triggers are identifiable, recorded centrally, monitored and actioned in a timely manner.
- Receipts are collected and held appropriately.
- Monies are utilised by the Councils in accordance with the agreement.
- This information is easily available, monitored and appropriately reported.

### Other Relevant Information

The previous audit in this area took place in 2018/19 and gave rise to several agreed actions. These have been addressed by the introduction of the Exacom software, with improved monitoring controls, ensuring triggers are identified and acted upon.

We performed an independent reconciliation between S106 income invoiced during the years 2020/21 & 2021/22 and figures stated in the corresponding year's IFS. Our calculations showed differences for both years as a result of the timing of recognition of income. Planning are reconciling and reporting income as at the date of actual receipt. This is not the accepted accounting treatment of income recognition but in view of reporting requirements of the IFS, this approach has been accepted. A contributor to this was confirmation that Finance are accounting for this income differently and in accordance with International Financial Reporting Standards (IFRS) by recognising S106 income when the invoice is raised.

In addition to the reconciliation work on S106, independent reconciliation of CIL income was also undertaken and was found to be satisfactory.

Enquiries were made to relevant parties on the operation of the consultation process between internal departments and Planning regarding the distribution of S106 income and consideration of requests for inclusion in S106 draft agreements. From the responses given by stakeholders, the consultation process appears to be operating satisfactorily.



# Wellbeing Support Available to Staff – Final Position Statement Audit Report – May 2023

## Introduction / Background

This audit is an advisory piece to assess how prepared Publica are to support staff through a public fallout. The audit was inspired by recent events surrounding Clarkson's Farm, with the view to identify areas for consideration and lessons learned which can be utilised in any future similar situation as necessary.

We have acted as a "critical friend" and have reviewed the current corporate support and guidance in place, as well as held discussions with Officers and drawn conclusions from observations made. The results of this audit may influence the scope of a second audit on training and support for staff in 2023/24.

We focused our audit on three key areas, and have split our findings below accordingly:

1. Policies
2. Corporate Response to Clarkson's Farm, and
3. Staff Feel Supported and Safe (Staff Surveys)

## Findings

### 1. Policies

We reviewed the existing and newly revised policies to assess whether any enhancements could be made in light of public controversies/fallouts. At the time of audit, the newly revised policies had not yet been approved or seen by the trade unions. However, we have been advised that they will be sent to trade unions, as well as considered by a project group, before final approval.

Below is a list of all existing and new policies which would benefit from further consideration in relation to controversial Publica events:

- *Business Conduct and Social Media Appendix*

This policy, and the accompanying appendix, do not account for when members of the public ask questions via social media, either through Publica channels, or privately. For example, if someone finds out the name of an employee at Publica and their account is not private, they could contact them directly and subject them to abuse.

The focus of the guidelines is to ensure that Publica's reputation remains intact, rather than point out the risks employees face in using social media whilst being an employee of local government (via Publica).

The only reference to any risks or safety considerations is an instruction to block, hide, or ban abusive users.

A more substantial warning and explanation of the risks would be beneficial. For example, to consider not disclosing your workplace and detail what the risks are surrounding this; to consider making profiles private; to consider temporarily making profiles private during times of particular controversy.

**Suggestion: Consider expanding the policy to ensure focus is on the risk to employees as well as Publica, and/or provide training to ensure that staff are aware of the risks of associating themselves with Publica, or the Councils, on social media.**

**Management Response:** The code of conduct is in the process of being re-written, with the view of it being signed off within 4-6 weeks.

- *Unreasonable Customers Register and Procedure*

The procedure and register are not fit for purpose.

There is a potential breach of GDPR regarding the register which requires consideration - anyone in Publica currently has access to the Unreasonable Customer Register, which contains the names and addresses of unreasonable customers, via the Procedure for Managing Unacceptable Customer Behaviour on the portal.

The appropriateness of the Unreasonable Customers Register has been questioned since 2019. A Head of Service advised that they do not believe Publica has a proper process in place to capture and manage abuse received over the telephone, which would relate to Clarkson's Farm and future similar events. Nor do they believe that there is a sufficient process to manage premises alerts for the home visits of potentially dangerous customers.

Furthermore, the policy does not include social media usage, for either those targeting personal accounts of employees, or official Council accounts. Nor does it detail what steps should be taken when this occurs, for example, can abusive customers be blocked or reported?

The Procedure for Managing Unacceptable Customer Behaviour specifies that all staff have the right to terminate calls containing unacceptable behaviour. However, customer phone calls are not recorded (when checked on 17/2/23). This could dissuade some staff from terminating calls or reporting incidents as it would make it harder for the behaviour to be proven, especially if calls are taken when homeworking and there is no one available to overhear the conversation. Furthermore, the potential lack of repercussion might encourage customers to act abusively.

Further consideration should be given to whether there are any homeworkers accepting communications from the public, as they might require additional wellbeing support in response to dealing with difficult communications when lone working.

**Suggestion: Consider revising the Unreasonable Customer Behaviour Policy and register to include additional information on social media usage.**

**Ensure that the register is compliant with GDPR.**

**Consider whether there are any homeworkers within Publica who receive communications from the public, and ensure what adequate wellbeing support is put in place for them over and above advising them that the Employee Assistant Programme is available.**

**Management Response:** The Unreasonable Customers Register and Procedure has been revised and a new policy and procedure has been drafted.

Publica are encouraging employees to be more proactive about their health and wellbeing by creating better overall wellness and resilience – this includes a new Employee Assistant Programme and launching Every Mind at work. Training will be rolled out to Managers to ensure they know what their role is, how they can best support employees, how to work with HR, and will encourage them to signpost earlier. Furthermore, a leadership development coach has been hired to work with cohorts, and the HR Business Partners have been reallocated to ensure an equitable split across the company.

- *Newly Revised Agile Working Policy*

This policy mentions home working, the benefits to the employee, and does consider some risks to their wellbeing, for example, ensuring an adequate home/life balance. However, it could be strengthened by including information on the consequences of the risks, such as burnout, and the importance of setting boundaries so as not to be available 24/7.

**Suggestion: Review the Newly Revised Agile Working Policy and consider including more information on the risks to the employee.**

- *Newly Revised Flexi-time, TOIL, and Overtime Policy, Newly Revised Agile Working Policy, and the Flexible Working Policy*

The above mentioned policies are grouped together as they are not clearly distinct from one another in their current formats. There are many similarities and overlapping qualities within each individual policy, as well as a lack of clarity across the different policies. It is not clear which policy applies to which employee, and how each policy should be followed.

We have provided detailed feedback on the policies to the HR Business Partner.

**Suggestion: Line Managers are responsible for monitoring the levels of TOIL accrued by employees, however 121s are not mandatory, nor is there a standard 121 template available. Consider how Publica ensure that Managers effectively monitor the working hours of their employees so that they are not overworking, and therefore at risk of decreased wellbeing.**

- *Sickness Policy*

The existing Sickness Absence Policy states that: “If you start work and then leave early due to sickness, it will be recorded as half a day’s sickness if you work less than 50% of your contracted hours for that day. If you work more than 50% of your contracted hours, no sickness absence will be recorded for that day.”

Whereas the NEW Sickness Absence Policy states that: “Sickness absence that begins part way through the day will count as one full day’s sickness absence if the employee leaves before completing 50% of their working day. Where sickness absence begins after the employee has completed 50% of their working day, this should be recorded as half a day’s absence.”

This shows a change that half a day’s sickness will now count as a full day. This could cause employees who experience an illness, stressful incident, or physical symptoms due to stress or an incident at work, to not take the time off that is needed as they might be concerned about their sickness absence levels. However, a few hours off might make a significant difference to that employee.

**Suggestion: Consider the impacts of the rule change meaning that half a day’s sickness now counts as one day.**

**Management Response:** This was an error, and the policy has been amended.

2. *Corporate Response to Clarkson’s Farm*

It was reported that there was corporate oversight and a corporate response with regards to Clarkson’s Farm, with good and positive work undertaken. However, this is not known by all employees, and is not evident when looking at all-staff communications, or the Portal.

During discussions with a few employees, it became clear that although it was agreed good work has been achieved, there had been a lack of consideration given to reassuring employees across Publica, and checking in on how staff were feeling day to day, for example via surveys (see point 3 below); the focus was on external communications rather than on how staff might have been impacted.

This could be the result of a lack of transparency and communication. Publica have not communicated the work they were doing, and therefore not all employees were aware of this work. We found three relevant all-staff communications on the portal, none of which specify the work being done behind the scenes.

We spoke to one team member who was concerned that Clarkson’s Farm posed a risk to employees and that nothing was being done to mitigate this, until they found out about the project team (which was **not** via an all-staff communication). Therefore, it is likely that other employees shared the same concern regarding a risk to their safety due to a lack of communication. As a result, employees might not feel safe, or might feel abandoned, and would not be getting reassurance that the situation is in hand. It is Publica’s responsibility to create a safe work environment and create opportunities for reassurance, rather than wait for employees to seek this out.

The lack of transparency is also evident in the lack of key services within the staff/team structure chart – the chart does not include the Fraud, Legal, or Internal Audit teams, which are crucial governance services.

These are key services which could be used to help an employee, or be within the public interest, potentially at the expense of Publica, which Publica are not openly directing staff to. If there was an issue, or concern, regarding the way in which Clarkson’s Farm was handled by Publica, the lack of information available regarding these key services would appear like Publica are discouraging their employees to raise and report concerns. Publica should consider the impact on their reputation regarding this, and whether actively signposting to these services will show that they have nothing to hide.

**Suggestion: We suggest that a business continuity style document is created with the intention of instating it when dealing with any public controversies/fall outs. Consider including aspects such as initiating a task force (as was done in the case of Clarkson’s Farm), advising all employees to make their social media accounts private, running pulse surveys to check stress levels, stating how often Managers should check in with employees, and communicating what is happening corporately, for example via the portal, on a regular basis.**

**Consider proactive transparency and ensure that all staff are aware of the key services provided by the Fraud, Legal, and Internal Audit Teams, as well as how to contact these teams.**

**Management Response:** Although staff deemed as being directly impacted were contacted, Publica did not contact all staff to provide initial reassurance, which is something that can be done if this happened again.

3. Staff Feel Supported and Safe (Staff Surveys)

The behaviour of some of the public towards Publica staff since Clarkson's Farm would be considered bullying as per Publica's Anti-Harassment and Bullying Policy. However, Publica are not following their own policy with regards to periodic monitoring of whether the workplace is free of bullying and harassment: The Harassment and Behaviour policy states that Publica will "Periodically monitor how successful we are being in creating a workplace free of bullying and harassment by other means which may include confidential staff surveys". Furthermore, the Wellbeing section of the Publica Portal suggests that staff take part in the regular wellbeing surveys. However, no surveys have been issued since Clarkson's Farm aired - it was confirmed by the Internal Communications Specialist (who is responsible for issuing surveys) that the last wellbeing survey run was in 2021, and the Assistant Director Organisational Effectiveness advised that surveys have been put on hold recently due to the level of change in HR.

As mentioned in point number 2 above, there was a lack of corporate communication, seemingly from a lack of consideration given to reassuring employees across Publica and checking in on how staff were feeling. This could have been achieved through issuing pulse surveys. It is imperative that Publica consider how employees might be impacted by events such as Clarkson's Farm, and take proactive action in remedying this.

Although great resources are available through the Employee Assistance Programme, these were not signposted to regularly, which could suggest they were not considered as being necessary during this time. There was a lack of awareness of how employees might have been impacted, with little done in understanding this.

Considering reports of a bullying culture within the Investors in People 2021 survey results, and mention of a lack of awareness at the top of the day to day workings, a more proactive and engaged approach to situations when staff stress levels are increased might help create a more supportive and encouraging culture.

**Suggestions: Consider enacting a more proactive approach to situations when staff stress levels might be increased. This could include running regular pulse surveys to monitor wellbeing and to remain compliant with the Anti Bullying and Harassment Policy.**

**Management Response:** The stress indicator tool will be run soon with the aim to utilise the results to effect change, as it is believed this will prove more valuable than wellbeing surveys.

A new sickness absence line is being set up and will be used to track data on a weekly basis – this will provide a true representation of the general wellbeing of staff.

Publica was reassessed by Investors in People in 2022 and passed, and lots of work is happening around changing the culture of Publica.

Various projects are underway which will help with stress levels: mental health first aiders are being refreshed, the Medicash scheme is available, Publica have gone out to tender for a new occupational health provider, a new training brochure has been written and issued, a new appraisal system is being launched which aims to better understand whether are happy in their jobs, and more 121s will be encouraged.

## Conclusion

*NB: This report reflects our findings at a specific point in time. The Management Responses within the report above capture additional information provided to us which detail the work currently in progress or planned.*

Although there was a corporate response to Clarkson's Farm, wider Publica staff were unaware and so may have incurred unnecessary stress. More can be done to ensure that the wellbeing of employees is at the forefront of decisions.

A more proactive approach to future events similar to Clarkson's farm, including more communication and transparency, could aid this, as well as show that Publica care about the wellbeing of its employees.

In addition, some policies should be enhanced and policies relating to working time made clearer as currently they are not as clear as expected.

We recommend that the suggestions listed within this report are put in place in order for Publica to develop and succeed as an organisation.



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**Open Agreed Actions - Cotswold DC**

Report Date - 1st July 2023

ID	Audit Title	Issue Title	Issue Status	Responsible Officer	Priority Score	Action Plan Status	Timescale	Revised Timescale	Revised Timescale 2	IA Comment
393	PUB - Revenues and Benefits - 2020/21	CDC / WODC - Housing Benefit not reconciled during 2020 (Pentana 44592)	Pending Remediation	Publica Business Partner Accountant	2	In Progress	31/01/21	30/11/22	--	Finance now have an officer in situ to support this work and meetings have been arranged to discuss approach and best practise
392	PUB - Revenues and Benefits - 2020/21	CDC and WODC - Officer system access is not revoked when it is no longer required. (Pentana 44540)	Pending Remediation	Business Manager Operational Services	3	In Progress	31/03/21	31/03/23	--	Quarterly checks are now carried out
396	PUB - Revenues and Benefits - 2021/22	Regular Financial Reconciliations (HB) are not completed (CDC and WODC) (Pentana 46965)	Pending Remediation	Head of Revenues and Benefits / Head of Finance	2	In Progress	30/06/22	30/11/22	--	Finance now have an officer in situ to support this work and meetings have been arranged to discuss approach and best practise
282	CDC - Procurement Cards - Aug 2022	Key Finding 1 – Non-Compliance with Council Policy (Pentana 47405)	Pending Remediation	Business Manager - Finance	1	In Progress	30/09/22	31/03/23	31/05/23	A revised policy for procurement cards has been drafted and shared with SWAP, S151 Officers and Fraud Team
283	CDC - Procurement Cards - Aug 2022	Key Finding 2 – Card Security and Unused Cards (Pentana 47406)	Pending Remediation	Business Manager - Finance	1	In Progress	30/09/22	31/03/23	31/05/23	A revised policy for procurement cards has been drafted and shared with SWAP, S151 Officers and Fraud Team
395	PUB - Revenues and Benefits - 2021/22	Backlogs exist in processing Housing Benefits claims (CDC, FoDDC and WODC) (Pentana 46966)	Pending Remediation	Head of Revenues and Benefits	3	In Progress	30/11/22	30/11/22	30/06/23	Additional resource bought in but work loads remain high due to CoLIC
397	PUB - Revenues and Benefits - 2021/22	Regular Financial Reconciliations (CT and NNDR) are not completed (CDC and WODC) (Pentana 46965)	Pending Remediation	Head of Revenues and Benefits / Head of Finance	2	In Progress	30/11/22	--	--	Finance now have an officer in situ to support this work and meetings have been arranged to discuss approach and best practise
284	CDC - Procurement Cards - Aug 2022	Key Finding 3 – Recharge of Card Spend (Pentana 47407)	Pending Remediation	Business Manager - Finance	2	In Progress	31/12/22	31/03/23	31/05/23	Work is ongoing to introduce virtual procurement cards which will provide a reduction in the administration relating to procurement card
285	CDC - Procurement Cards - Aug 2022	Key Finding 4 – Policy Updates (Pentana 47408)	Pending Remediation	Business Manager - Finance	2	In Progress	31/12/22	31/03/23	31/05/23	A revised policy for procurement cards has been drafted and shared with SWAP, S151 Officers and Fraud Team
286	CDC - Procurement Cards - Aug 2022	Key Finding 5 – Cardholder Agreements (Pentana 47409)	Pending Remediation	Business Manager - Finance	2	In Progress	31/12/22	31/03/23	31/05/23	Along with the policy update a review has already been undertaken regarding the existing card holders and limits
394	PUB - Revenues and Benefits - 2021/22	Revenues: Inconsistent practices are operating across the service (Pentana 46628)	Pending Remediation	Head of Revenues and Benefits / Revenues Manager	3	In Progress	31/12/22	--	--	Processes are being reviewed and where appropriate, aligned
305	PUB - Vulnerability Management (Shell) - Apr 2022	Device Security Status Checks (Pentana 47107)	Pending Remediation	Chief Technological Officer	2	In Progress	31/01/23	31/03/23	31/07/23	Discussed with the CTO who advised that this is currently being completed on a manual basis and to keep this action open until the revised timescale as an automatic solution is being developed
580	CDC - Revenues & Benefits - Dec 2022	Housing Benefit Overpayment Invoices Not Raised	Pending Remediation	Business Manager - Environmental, Welfare & Revenue Services	1	In Progress	31/05/23	--	--	
758	CDC - Climate Change Strategy - September 2022	Climate Change KPIs Not Defined	Pending Remediation	Head of Climate Action (CDC)	2	In Progress	30/06/23	--	--	
474	CDC - Revenues & Benefits - Dec 2022	Accounts with inhibits are not actively reviewed	Pending Remediation	Business Manager - Revenues & Benefits	2	In Progress	30/06/23	--	--	Will be reviewed in Annual Audit which has commenced
2338	CDC - S106 Agreements and Funds 2022/23	S106 Agreement Reporting	Pending Remediation	CDC Planning Policy Manager	2	In Progress	30/06/23	--	--	
2339	CDC - S106 Agreements and Funds 2022/23	Reconciliation Procedure (Pentana 46965)	Pending Remediation	CDC Planning Policy Officer	3	In Progress	30/06/23	--	--	
2043	CDC - Treasury Management & Cashflow Forecasting - Dec 2022	Forecast vs Actuals Variance Reviews are not performed.	Pending Remediation	Treasury Accountant	2	In Progress	30/06/23	--	--	
2044	CDC - Treasury Management & Cashflow Forecasting - Dec 2022	A single cashflow monitoring spreadsheet is updated.	Pending Remediation	Treasury Accountant	3	In Progress	30/06/23	--	--	
1218	CDC - Revenues & Benefits - Dec 2022	There are significant credit amounts in closed Council Tax accounts.	Pending Remediation	Revenues Operational Lead	2	In Progress	31/07/23	--	--	
2109	CDC - Business Continuity - Dec 2022	Service area level Business Continuity Plan testing/tabletop exercises has not been undertaken.	Pending Remediation	Business Manager- Business Continuity, Governance and Risk	3	In Progress	30/09/23	--	--	
764	CDC - Climate Change Strategy - September 2022	Impact Assessments	Pending Remediation	Head of Climate Action (CDC)	3	In Progress	30/09/23	--	--	
763	CDC - Climate Change Strategy - September 2022	Risk Register Climate Risks	Pending Remediation	Business Manager - Assets and Council Priorities	3	In Progress	30/09/23	--	--	
2110	CDC - Business Continuity - Dec 2022	Advice and guidance from ICT has stalled due to service pressures.	Pending Remediation	Business Manager- Business Continuity, Governance and Risk	3	In Progress	31/12/23	--	--	
2108	CDC - Business Continuity - Dec 2022	Revenues & Benefits – Only a high level Business Continuity Plan is maintained.	Pending Remediation	Business Manager - Environment, Welfare & Revenue Service	2	In Progress	31/12/23	--	--	

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# Auditor's Annual Report on Cotswold District Council 2021/22

16 June 2023

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive summary



## Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

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Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk of significant weakness identified	No significant weaknesses in arrangements identified, but 2 improvement recommendations made	No significant weaknesses in arrangements identified, but 4 improvement recommendations made	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but 1 improvement recommendation made	No significant weaknesses in arrangements identified, but 4 improvement recommendation made	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but 2 improvement recommendation made	No significant weaknesses in arrangements identified, but 3 improvement recommendation made	↔

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

We recognise that these judgements relate to 2021/22 and that inevitably arrangements across all these areas will have evolved since the period for which these judgements relate. We have sort to reference further developments in the detail of this report where appropriate but have based are assessment above on the period in question.

# Executive summary



## Financial sustainability

The Council, like others, continues to operate in an uncertain financial environment. The Council understands the financial risks it faces particularly in respect of its key income streams, the impact of inflationary pressures and the need to identify and then delivery savings over the medium term. The Council has put in place appropriate measures, including the recent formation of a cabinet transformation working group, to support financial sustainability.

As part of our initial audit plan, we identified a risk of significant weakness in relation to financial sustainability reflecting the uncertainty regarding local government funding in the medium term. Our subsequent work has not identified any significant weaknesses in arrangements to secure financial sustainability but has identified four improvement recommendations. Further details can be seen on pages 16 to 19 of this report.



## Governance

The Council enhanced its governance arrangements during 2021/22 through a review of the Council's constitution and the introduction of a revised Risk and Opportunity Management Strategy, with further development of the Council's governance and control environment planned as part of the Council's corporate peer challenge 2023 action plan. Our work has not identified any significant weaknesses in arrangements but has identified four improvement recommendations. Further details can be seen on pages 25 to 28.



## Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources. The Council is seeking to significantly develop its benchmarking and performance management activities whilst also assessing key partnership arrangements. These planned areas of focus will help strengthen arrangements for improving the way the Council delivers its services. We have identified three opportunities for improvement which are set out on pages 33 to 35.



As at the 30 May 2023 our work on the Council's financial statements is substantially complete.

We are, however, awaiting the resolution of a national issue in respect of the net Pension Liability.

Subject to the satisfactory resolution of this outstanding issue we anticipated giving an unqualified opinion on the Council's financial statements for 2021/22.

Our findings are set out in further detail on pages 38



# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

Our work on the Council's financial statements is substantially complete. We are, however, awaiting the resolution of a national issue in respect of the net Pension Liability. Our findings are set out in further detail on page 38.

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to the court.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for judicial review.

# Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



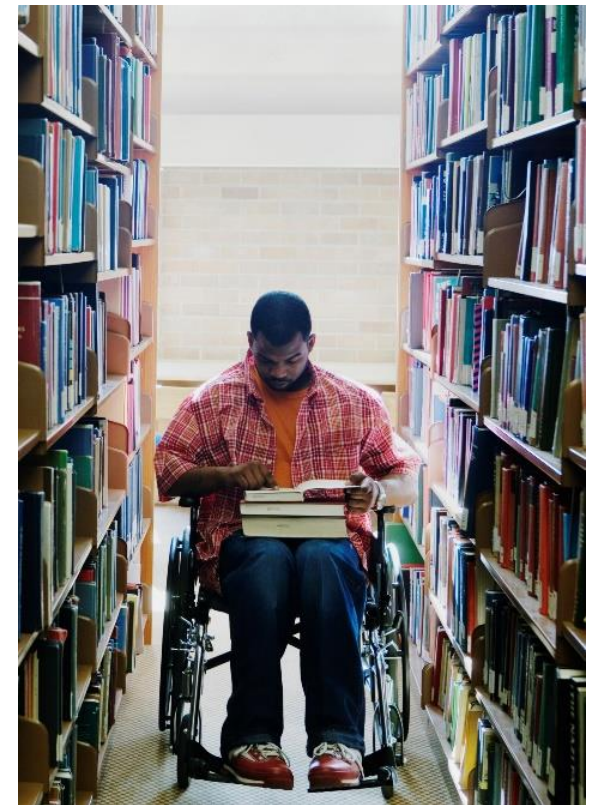
## Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 35. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

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## Outturn 2021/22

The Council's Cabinet, on 04 July 2022, considered the Financial, Council Priority and Service Performance Report 2021/22 - quarter four, and this included the Council's general fund provisional outturn for the financial year 2021/22. The provisional outturn was an underspend of £0.018m, and the associated report included detailed explanations of significant variances, and a full list of all budget variances formed an appendix to the main report which supports transparency and is in line with good practice.

Significant budget variances included a £0.74m under recovery of car parking income for the financial year 2021/22 which reflected the ongoing impact of Covid-19, partially offset by £0.24m of grant funding from the government income compensation scheme for lost sales, fees and charges.

Higher rates of recycling during 2021/22 resulted in £0.3m more income than originally budgeted, additionally the paid subscriptions to the Council's garden waste collection service were also higher than the original budget estimate resulting in £0.15m of additional income to the Council. Due to additional waste being presented by households during 2021/22, and in response to Covid-19 health and safety requirements, environmental service contract costs were £0.15m overspent for 2021/22.

The provisional 2021/22 outturn also detailed that Revenues and Housing Services were £0.38m overspent, reflecting the impact of Covid-19 on this service area with significant contributors to this overspend being increased temporary accommodation costs, additional costs to support residents facing financial hardship and an under recovery of overpayment and court cost income.

The Council was part of the Gloucestershire Business Rates Pool during the financial year 2021/22 which resulted in £0.35m of additional income.

This additional income was transferred to the Council's Priorities Fund, an earmarked reserve to provide revenue funding to projects that support the delivery of the Council's corporate priorities, representing a practical strategy to fund future initiatives that support delivery of the Council's Corporate Plan 2020-2024.

## 2022/23 Budget

On 16 February 2022 full Council considered the medium-term financial plan and budget report for 2022/23. The report clearly set out the impact to the Council of the local government financial settlement for the financial year 2022/23 which had been confirmed on 7 February 2022. This included a lower tier services grant of £1.43m, a new homes bonus payment of £0.81m, rural service delivery grant of £0.63m and a one-off services grant of £0.12m. The Council's income from retained business rated increased to £3.46m, an increase of £0.18m in comparison to the previous financial year. The budget report stated that the 2022/23 core Government funding represented an overall reduction of £0.22m in comparison to 2021/22.

The 2022/23 budget report set out the Council Tax base which had increased by 0.8% compared to the previous year, which was lower than the 1.2% increase that had previously been assumed within draft budget proposals considered by Cabinet on 4 October 2021, this lower rate of growth was due to a rise in the number of single person households, an increase of Local Council Tax Support payments and slower than predicted housing growth. The Council's 2022/23 budget recommended an annual increase of £5 per band D property, which combined with the tax base growth would result in overall increase of £0.25m in income from Council Tax in compared to the previous year.

# Financial sustainability (Cont'd)

The 2022/23 budget report included a detailed assessment of the impact of inflation on salaries and contracts supported by external inflation forecasts to inform the Council's budget assumptions which represents good practice.

The Council's 2022/23 budget included a 2.5% inflationary increase in pay for Council, Publica employees and allowances for members for 2022/23. Pay inflation for Ubico Limited, the Council's environmental services company, was separately assessed with inflation growth of £0.35m being reflected in the 2022/23 budget.

Total Council wide inflationary pressures, including pay and contracts, were £0.83m for 2022/23 with the budget report highlighting a potential risk of further inflationary increases during 2022/23, with an intention for the Council to meet any additional inflation cost over and above the existing provision from unallocated general fund reserves representing a practical risk mitigation strategy, in the short term, to rising inflationary pressures.

The impact of Covid-19 continued to impact the Council's financial planning with the 2022/23 budget forecasting a £0.4m reduction in car parking income and increased contract costs of £0.36m for additional recycling and garden waste collection rounds.

Other significant growth items for 2022/23 included £0.097m to fund additional posts including a full-time monitoring officer, adding further capacity to the Council's senior leadership team, and a permanent resource to support economic development to help assist economic recovery within the district following the Covid-19 pandemic. The Council also recognised the importance of data security controls and the 2022/23 budget included a growth item of £0.007m for ICT software and cyber security enhancements.

The Council owns several commercial properties held as investments that generate income to support the revenue budget. The 2022/23 budget report forecast the Council would receive £0.561m of commercial property investment income in 2022/23 which represented an increase of £0.134m from the previous year. This increase in income resulted from the refurbishment of a commercial property asset, prior to 2022/23 rental income from this asset had been placed in a reserve to fund the repairs. The strategic management of the Council's assets including those held as commercial investment is covered later within this section.

The Council's medium term financial plan and budget report for 2022/23 included and annex of all the responses received from a public budget consultation that had been held between October and November 2021.

The 2022/23 budget report also explained how the Council had extensively promoted the budget consultation resulting in 33% more responses than the previous year and that the responses received had been considered by cabinet and helped inform budget decisions.

The Council's active promotion of the 2022/23 budget consultation, the assessment of feedback and publication of all responses within the 2022/23 budget reports demonstrates the Council willingness to engage the public in the budget setting process, supports transparency and represents good practice.

## Capital Programme

On 24 February 2021 full Council considered the Medium Term Financial Plan (MFTP) and Budget Report 2021/22 which included the Council's proposed capital projects over a four-year period between 2021/22 to 2024/25, with a planned total capital expenditure of £74.8m for the period.

Capital projects for 2021/22 had an original budget of £18.32m which was funded by a combination of grant funding, capital receipts, and borrowing. Planned capital projects included leisure facility improvements (£1.58m), private sector housing adaptations (£0.75m), digital development within services (£0.55m) and provision of electric vehicle charging points (£0.15m), these capital project demonstrated alignment to the Council's corporate priorities. The 2021/22 capital programme included £15.2m of capital provision in relation to potential schemes falling within the scope of the Council's Recovery Investment Strategy 2020-2024.

On 04 July 2022 Cabinet considered the Financial, Council Priority and Service Performance Report 2021/22 - quarter four, and this included the Council's provisional capital outturn for the year. Actual capital expenditure for 2021/22 was reported as £2.6m against a revised capital budget of £26m. The revised capital budget reflected the Council's approval of capital schemes relating to decarbonisation works and property acquisitions.

Significant contributors to the capital project slippage included:

- £15.2m - Recovery Investment Strategy
- £4.3m - Strategic property acquisition
- £1.2m - Investment in Cirencester leisure centre
- £0.6m - Installation of electric vehicle charging points



# Financial sustainability (Cont'd)

## Capital Programme (Cont'd)

The absence of approved schemes falling within the scope of the Council's Recovery Investment Strategy (which is discussed later in this section) represented the majority of capital project slippage during 2021/22. The Recovery Investment Strategy 2020-2024 was approved by full Council on 23 September 2020 however the supply of suitable schemes was slowed by the economic impacts of the Covid-19 pandemic.

As part of our work, we have analysed the Council's actual capital expenditure in comparison to the capital budget for the financial years 2017/18 to 2021/22 as per Figure 1 below:

	2017/18	2018/19	2019/20	2020/21	2021/22
Actual Capital Expenditure (£m)	2.3	1.6	7.6	3.2	2.6
Capital Budget (£m)	5.2	12.8	16.6	11.0	26
% of budget utilised	44%	13%	45%	29%	10%

Figure 1. Capital budget utilisation 2017/18 – 2021/22 (£m)

Figure 1 shows that the Council has historically underutilised its capital budget over the last 5 years.

Discounting the impact of the Covid-19 and the scaling up of the Council's capital projects from 2020/21 – 2021/22, the Council committed on average 34% of the total capital budget for the period 2017/18 to 2019/20.

We are aware the Council has committed to review some elements of its capital activities as part of the Local Government Association (LGA) corporate peer challenge 2023 action plan report, considered by full Council on 18 January 2023.

We recommend the Council widens the scope of its planned review of capital project activities, during 2023/2024, to identify areas that could be enhanced to support the timely delivery of all capital projects.

This should include a review to:

- ensure effectiveness of the Council's current capital project planning, approval, and prioritisation process.
- review the appropriateness of the profile of each existing capital project spend.
- assess the resources, internally and externally, which are needed to manage the Council's capital projects, including finance and project management resource.
- assess the adequacy of current risk management, monitoring and oversight of the Council's capital projects.

## Recovery Investment Strategy

As already noted, on 23 September 2020 full Council approved the Recovery Investment Strategy 2020 – 2024. The strategy set out the financial challenges facing the Council and included reference the Council's MTFP 2020/21 – 2029/30 and an overall unfunded revenue budget gap of £4.8m to 31 March 2024.

The strategy included a delivery plan for the period 2020/21 to 2023/24 which detailed how the Council would close this budget gap through a mixture of government grant funding, increasing existing/creating new revenue streams and service efficiencies.

The strategy also set out a capital investment framework within which the Council could invest in the infrastructure of the district, whilst also providing a return on investment that covered the capital financing costs and delivered a financial return to the Council.

The Recovery Investment Strategy 2020 – 2024 detailed planned new capital expenditure of £54.2m, funded by Council borrowing, for the period 2021/22 to 2023/23 and included a requirement that capital investment schemes falling within scope of the strategy did not worsen the ongoing revenue position of the Council with any proposals needing to meet the annual revenue cost of the capital investment plus a minimum financial return of 2.5%.

# Financial sustainability (Cont'd)

## Recovery Investment Strategy (Cont'd)

On this basis the Recovery Investment Strategy assumed £1.35m of income from capital investments for the period 2021/22 to 2023/24.

On 20 July 2022 full Council approved an updated Recovery Investment Strategy 2022 – 2026 to align more fully to the Council's 2022/23 budget and MTFP 2022/23 – 2025/26 that had been approved by the Council on 16 February 2022.

The Recovery Investment Strategy 2022 – 2026 again focused on how future capital investment returns could support the Council's revenue budget. The Recovery Investment Strategy 2022 – 2026 detailed planned capital expenditure of £76.5m, funded by Council borrowing, for the period 2022/22 to 2023/24 and assumed a £5.6m revenue return on the capital investment for the same period.

On 16 November 2022 full Council considered a further report on the Recovery Investment Strategy 2022 – 2026 which recommend the strategy be cancelled and the Council should amend its capital strategy to remove the associated £76.5m of planned capital activity.

The recommendation to rescind the Recovery Investment Strategy 2022 – 2026 was based on external economic factors including uncertainty over the impacts of higher inflation, interest rates and affordability of Council borrowing. We also understand from the Council that external advice was sought in relation to proposals within the Recovery Investment Strategy 2022 – 2026.

The Council's assessment of the viability of the Recovery Investment Strategy 2022 – 2026, represents agile decision making and provides evidence of the Council's willingness to review the appropriateness of previous Council decisions.

The rescinding of the the Recovery Investment Strategy 2022 – 2026 does have implications to the Council's MTFP 2022/23 - 2025/26 specifically in relation to the assumed revenue returns from the proposed capital expenditure of £5.6m for the period 2022/23 – 2025/26.

The report of 16 November 2022 to full Council, rescinding the Recovery Investment Strategy 2022 – 2026, acknowledged the need for the Council to now develop a savings programme that mitigates the risk to the Council's financial resilience. The Council's development of a new savings is covered in more detail later in this section of the report.

## Fees and Charges

On 24 February 2021 full Council considered the Council's Medium Term Financial Strategy and Budget 2021/22 report. This report included proposals to increase discretionary fees for waste services and car parking charges, however a full schedule of all fees and charges, both discretionary and statutory, was not included. On 16 February 2022 full Council considered the Council's Medium Term Financial Strategy and Budget 2022/23 report and again this report included proposals to increase discretionary fees for waste services and specific car parking charges but did not include a full schedule of all the Council's fees and charges.

We understand from the Council that for the financial years 2021/22 and 2022/23 all statutory fees and charges were increased in line with legislation however, only specific discretionary fees and charges were increased, and a complete review of fees and charges was not undertaken. The Council's budget reports for 2021/22 and 2022/23 did not explain any instances where the Council had decided to not increase fees and charges and the implications of this decision on projected income to the Council.

We have not raised this as an improvement recommendation as on 6 February 2023 Cabinet considered a report of fee and charge setting proposals for 2023/24, presented by the Council's recently appointed Deputy Chief Executive and Section 151 officer. This report included a full schedule of fees and charges, the report described in detail any proposed changes and included reference to the financial implications of such changes which supports transparency and follows good practice.

## Medium Term Financial Strategy 2022/23 – 2025/26 and Savings

On 16 February 2022 full Council considered the Council's medium term financial strategy (MTFS) report, as part of the 2022/23 budget setting process, the MTFS covered a four-year period which supports effective financial planning and follows good practice. This MTFS report set out how Council would deliver a balance budget for each year of the strategy whilst delivering the Council's corporate priorities. The MTFS report detailed a wide range of factors and risks that has been considered in the formation of the MTFS report and these included the impact of inflation on pay and contracts with the MTFS assuming of 2.5% inflationary increase for the MTFS period, the impact of Covid-19 on income with the MTFS assuming Council's income from sales, fees and charges will return to pre-pandemic levels from 2024/25 and an assessment of the ongoing uncertainty of future local government funding from central government.

# Financial sustainability (Cont'd)

## Medium Term Financial Strategy 2022/23 – 2025/26 and Savings (Cont'd)

The MTFS assumed central government funding, received, or retained by the Council, would reduce for the period 2022/23 to 2025/26 as per Figure 2 below:

	2022/23	2023/24	2024/25	2025/26
Overall Central Government funding (£m)	6.469	4.486	3.581	2.654
Forecast Reduction in Central Government funding from prior year (£m)	0.227	1.983	0.905	0.927

Figure 2 – MTFS 2022/23 – 2025/26 forecast central government funding

Figure 2 shows that the Council assumed that central government funding would significantly reduce by a total of £4.04m for the period 2022/23 – 2025/26 and the outcome of the governments fair funding review and the business rates baseline reset would begin to negatively impact the Council from 1 April 2023.

Councils continue to operate with a lack of funding certainty in part due to continued delays to the fair funding review and the implementation of the business rate baseline reset but also due to external factors such as inflation and rates of economic growth which could lead to different financial scenarios.

The Council's MTFS 2022/23 – 2025/26 report did not detail and assess different financial scenarios in relation to levels of central government funding for local authorities or other elements of financial variance such as inflation, the rate of Council Tax growth and the impact of decisions that could be taken in respect of the level of Council Tax charged.

An improvement recommendation is made for the Council to introduce wider financial scenario planning within its MTFS and to include such information in annual budgeting setting reports.

Assessing the reasonable best, worst and optimum financial scenarios when setting the Council's budget and medium-term financial plans would enhance the Council's strategic financial planning and support the Council's financial sustainability, and flexibility, to accommodate a range of potential scenarios.

The Council MTFS 2022/23 to 2025/26 included savings targets to balance the revenue budget for the MTFS period as per Figure 3. Savings 2022/23 – 2025/26 below:

	2022/23	2023/24	2024/25	2025/26	Total
Savings (£m)	0.822	3.824	2.062	2.160	8.868

Figure 3 Savings 2022/23 – 2025/26 identifies the Council planned £8.868m of savings over the MTFS period. The Council explained, within the MTFS 2022/23 – 2025/26 report, the savings targets would be delivered by a mixture of policy changes, efficiency savings, fee increases and investment returns with a plan for the delivery of the savings detailed in the Council's Recovery Investment Strategy. However, as already referenced in this report on 16 November 2022 full Council considered a report that recommended the Recovery Investment Strategy was cancelled which has impacted the Council's planned delivery of savings. On 15 February 2023 the full Council considered the 2023/24 revenue budget, capital programme and medium term financial strategy 2023/24 – 2026/27. The MTFS 2023/24 – 2026/27 included revised savings and transformation plan items as per Figure 4 below:

	2023/24	2024/25	2025/26	2026/27	Total
Savings and transformation plan items (£m)	1.510	2.358	3.323	3.351	10.542

Figure 4. Savings and transformation plan items 2023/24 – 2026/27, shows the Council plans to deliver £10.542m of savings over the MTFS period, however this level of savings does not balance the revenue budget for the MTFS period. The budget gap within the MTFS 2023/24 – 2026/27 is identified in Figure 5 below:

	2023/24	2024/25	2025/26	2026/27	Total
Budget Gap (£m)	0.860	0.206	1.822	3.025	5.913

Figure 5 budget gap MTFS 2023/24 – 2026/27 identifies that the Council is required to close a budget gap of £5.913m, after the delivery of £10.54m of savings, over the MTFS period.

# Financial sustainability (Cont'd)

## Medium Term Financial Strategy 2022/23 – 2025/26 and Savings (Cont'd)

For 2023/23 the Council set a balanced budget, after the utilisation of reserves, and we understand from the Council that a Cabinet Transform Working Group was formed in February 2023 and is developing a revised approach to the Council's savings programme to address the budget gaps identified over the remaining MTFs period.

The Council's new Deputy Chief Executive and Section 151 Officer has highlighted, within the 2023/24 revenue budget, capital programme and medium-term financial strategy 2023/24 - 2026/27 report to full Council on 15 February 2023, that the Council needs to place a focus on identifying and approving future savings during 2023/24.

This will help ensure the Council is able to maintain financial sustainability over the current MTFs period and the development of additional saving plans is an area of that will be followed up on in more detail within the 2022/23 Auditors Annual Report.

## Reserves

On 24 February 2021 full Council considered the Council's Medium Term Financial Strategy and Budget 2021/22 report, which included a statement in respect of the adequacy of the Council's reserves and a recommendation, from the Chief Finance Officer, that the Council should hold a minimum general fund unallocated reserve balance of £1.75m which represented 14% of the Council's net revenue budget.

The 2021/22 budget report stated that general fund unallocated reserves were forecast to be £2.29m of 31 March 2022, 18% of the 2021/22 net revenue budget. The Council's minimum level of unallocated general fund reserves represented a practical risk mitigation strategy especially considering the ongoing impact of Covid-19 on the Council's financial planning for 2021/22 and is good practice.

The Council's earmarked general fund reserves of £12.6m includes a corporate priorities fund reserve being available for investment in initiatives which support delivery against the Council's priorities, planned expenditure from this reserve in 2021/22 supported civic pride initiatives, additional waste and recycling provision and funding to support the Recovery Investment Strategy and economic development demonstrating close alignment with the Councils corporate plan 2020-2024 which is good practice.

On 5 December 2022 Cabinet considered the Financial, Council Priority and Service Performance Report – 2022-23 Quarter Two which explained the Council was facing budget pressures that were impacting on the 2022/23 budget, which included inflation, energy costs and interest rates, resulting in a forecast budget outturn variance of £1.38m which would be funded by general fund reserves.

Within this report the Council stated it had sufficient reserves to support the revenue budget in the short term however action need to be taken to ensure that the Council is financially sustainable over the MTFs period and the Financial, Council Priority and Service Performance Report – 2022-23 Quarter Two included several recommendations to address the projected variance including:

- Delivery of contract efficiencies and cost savings must be a priority over the remainder of the financial year
- The allocation of any one-off income or cost savings is allocated to a new financial resilience reserve
- As part of the final budget preparation process for 2023/24, a review of the reserves and balances strategy is undertaken to consider the adequacy of reserves in light of the financial risks faced by the Council.

The Council has taken proactive action to strengthen its level of reserves and is actively assessing the adequacy of reserves to meet future financial uncertainties. The sustainability of Council reserves is an area that will be assessed in more detail within our 2022/23 Auditor's Annual Report.

# Financial sustainability (Cont'd)

## Alignment of Financial and other Corporate Plans

### Corporate Plan 2020-2024

The Council's Medium Term Financial Strategy and Budget for 2021/22, as agreed by full Council on 24 February 2021, had direct alignment to the priorities within the Council's Corporate Plan 2020-2024, for example the budget for 2021/22 included:

- Proposed capital project investment to support the delivery of new social housing, green energy projects and installation of charging points for electric vehicles. Additionally, revenue implications from the proposed capital projects were identified within the Council's Capital Strategy 2021/22 demonstrating further alignment of key Council Strategies
- New revenue funding for reviewing the Council's Local Plan to make it 'green to the core'

On 6 September 2021 Cabinet considered the Financial, Council Priority and Service Performance Report – 2021-22 Quarter 1. The purpose of the report was to provide a quarterly progress update, 1 April – 30 June 2021, to Cabinet in respect of:

- Council activity supporting the Council's Corporate Plan 2020-2024.
- individual service performance.
- budget monitoring reports for the General Fund Revenue and Capital budgets 2021/22.

The collation of quarterly corporate plan activity with service and financial performance within one report further demonstrates the Council's awareness of the interdependency of these three key areas and provides an opportunity for appraisal of the Council progress in achieving in corporate priorities representing good practice.

### Workforce Strategy

The majority of the Council's workforce are employed within Publica a not-for-profit company wholly owned by the Council, Forest of Dean District Council, West Oxfordshire District Council and Cheltenham Borough Council. The Council has small number of retained officers including statutory posts. The Council and Publica do not have current workforce or people strategies.

However, the Publica Business Plan 2022 – 2025 does set out the Publica's strategic priorities including those relating to the development of its workforce to support the delivery of shareholder priorities which includes Publica working toward Investors in People accreditation which was since obtained in July 2022. We have been informed by Publica a workforce strategy is being currently developed and it is intended this workforce strategy will build upon the Publica Business Plan 2022 – 2025 and the Investor in People framework.

In October 2022 the Local Government Association (LGA) conducted a peer review of the Council. The LGA feedback report included key recommendations that directly related the workforce of both the Council and Publica, these are covered in more detail within the Improving economy, efficiency and effectiveness section of this report.

The Council has responded to the key recommendations, as part of the corporate peer challenge 2023 action plan report, that was considered by full Council on 18 January 2023. However, the corporate peer challenge 2023 action plan does not include a commitment to develop a workforce strategy in partnership with Publica or for a workforce strategy to be developed for directly employed Council officers.

It is acknowledged that due to the Publica providing services to four individual Councils a workforce strategy would need to be built upon mutually agreed principles with sufficient alignment to individual shareholder priorities and financial plans, despite the need for shareholder consensus the absence of an agreed workforce strategy, aligned to the Council's medium term financial plan, increases financial risk to the Council and this is addressed within a wider improvement recommendation within this section.

### Asset Management

On 7 March 2022 Cabinet considered a report regarding changes to the Council's offices to facilitate agile working, reduce cost costs and carbon impact of the Council's operations and creating lettable space within the building to provide income to the Council. The report explained the Council's resourcing partner Publica introduced an Agile Working Strategy in August 2020, which supported a permanent shift to a hybrid working for most Publica staff and because of this change, the Council had reduced need for office space. The report proposed 35% of Council office space could now be marketed, following capital investment, to new commercial tenants. The Council's review of its physical assets in terms of future usage patterns and whether alternate use of space can support income generation demonstrates good practice. However, in our review of how the Council manages its wider physical assets we have established the Council does not have in place an Asset Management Strategy, but we understand from the Council this is planned activity.

# Financial sustainability (Cont'd)

## Alignment of Financial and other Corporate Plans (Cont'd)

Financial sustainability could be enhanced by the introduction of workforce strategies and an asset management strategy which are aligned to, and support, the Council's medium term financial strategy. We recommend the Council develops and agrees the following:

- A Publica workforce strategy, and aligned Council workforce strategy, that supports the delivery of the Council's corporate priorities and medium-term financial strategy and assists the Council to address the relevant workforce recommendations made as part of the corporate peer challenge.
- An asset management strategy that is aligned to the Council's corporate plan 2020 – 2024 and Climate Emergency Strategy 2020-2030 that supports the Council in the delivery of its objectives through the management of physical assets in line with the Council's medium term financial strategy.

## Treasury Management

The Council sets a treasury management strategy annually as part of the budget setting process. The monitoring of treasury management activity is undertaken by the Council's Audit and Governance Committee. This process follows good practice and is in adherence to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice.

On 29 September 2022 the Audit and Governance Committee considered the Treasury Management Outturn Report 2021/22 which detailed the Council's treasury management activities for the financial year ending 31 March 2022. The report stated outturn for investment income received in 2021/22 was £0.39m representing a 1.2% return on an average investment portfolio of £32m. The Council's investment portfolio of £32m included £12.5m invested in pooled funds as of 31 March 2022. These pool funds generated a total return of 3.41% during 2021/22 and the capital values on these funds increased by £0.422m as of 31 March 2022.

The Treasury Management Outturn Report 2021/22 highlighted that pooled funds do introduce higher level of risk than other Council investment activities. However, the report stated the pooled funds are invested in different investment classes and therefore risk is diversified and pooled fund performance, and their suitability in meeting the Council's investment objectives, are monitored and discussed with the Council's external treasury management advisors on a regular basis representing a practical risk management strategy, supported by specialist advice and demonstrates good practice.

The Treasury Management Outturn Report 2021/22 report confirmed the Council's compliance to treasury management indicators during 2021/22, these indicators were:

- The Council's exposure to credit risk - Portfolio average credit requirement being A- (complied)
- A limit on principal sums invested for periods longer than 364 days - £12.5m limit (complied)

The use of treasury management indicators by the Council represents a reasonable risk management framework although the Council has not adopted treasury management indicator in relation to its exposure to liquidity risk. The Council's Treasury Management Outturn Report 2021/22 stated the Council held £14.7m in money market funds and call accounts and we have been informed by the Council that the call account are instant access but there is not a formal liquidity indicator set as part of the Council Treasury Management Strategy.

An improvement recommendation is made for the Council to agree and adopt an indicator of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a defined period, without the need for additional borrowing.

The adoption of a liquidity indicator would strengthen the Council's management of treasury risk, enhance existing cash flow planning, support the Council's treasury management objectives, and increase transparency.

## Local Climate Bonds

On 05 July 2021 Cabinet recommended the approval of a Council report pledging to issue a Local Climate Bond using a community municipal investment model managed by an external provider. The report explained the bonds would enable people to invest directly into the Council and receive a return on their investment and allow the Council to use the capital raised to support climate change projects within the district. The Council's proposal for a Local Climate Bond issue directly aligned with a priority within the Council's Corporate Plan 2020-2024 'responding to the challenges presented by the climate crisis' and a principles within the Council's Climate Emergency Strategy 2020-2030 including 'seek to leverage external finance, to magnify the impact of what we would otherwise achieve with our own much more limited resources', such interconnectivity and alignment of key Council plans and strategies is good practice

# Financial sustainability (Cont'd)

## Local Climate Bonds (Cont'd)

On 16 February 2022 full Council considered the medium-term financial plan and budget report for 2022/23. The report proposed that the Council issued Climate Bonds with an indicative interest rate of 1.18% for five years. The budget report also stated that the external provider fees would be charged to the revenue account and these costs would be offset by the Council paying a lower interest rate return, on the bonds, than the rate available through the Public Works Loan Board. The budget report also proposed that the final terms of the Climate Bonds, including the interest rate offered and the number and timing of investment phases is delegated to the Deputy Chief Executive in consultation with the Deputy Leader and Cabinet Member for Finance.

On 23 January 2023 the Audit and Governance Committee considered the Treasury Management Mid-Year Report 2022-23 which referred to the Climate Bonds, now named as 'Cotswold Climate Investment' and the report stated that a £0.5m bond issue had closed on 16 August 2022, fully funded by 450 investors and as 30 September 2022 the Council held a £0.5m loan administered through an external provider and this fund would projects, including installing publicly available off-street electric vehicle charging points and improving the energy and carbon performance of the Council's offices. Cotswold Climate Investment is a form of debt/loan-based crowdfunding that represents an emerging area of commercial activity for Councils. Innovative commercial activities could present new opportunities for Councils alongside increased financial risk and therefore the Council's use of crowd funding is an area that will be assessed in more detail within our 2022/23 Auditor's Annual Report.

## Conclusion

In conclusion we have not identified any significant weaknesses in arrangements to ensure the Council manages risk to its financial sustainability.

Whilst arrangements are deemed appropriate we recognise that the ability to balance the revenue budget into the medium term will become increasingly difficult. The recent cancellation of the recovery investment strategy will necessitate a clear alternative to addressing budget gaps going forward. The cabinet transformation working group will have a key role to play in fulfilling this challenge. In addition continued close monitoring of delivery against budget and the need to review service delivery to reflect the changing needs of the Council's stakeholders remains critical.

We have made four improvement recommendations set out on pages 16 to 19.



# Improvement recommendations



## Financial sustainability

### Recommendation 1

We recommend the Council widens the scope of its planned review of capital project activities, during 2023/2024, to identify areas that could be enhanced to support the timely delivery of all capital projects. This should include a review to:

- ensure effectiveness of the Council's current capital project planning, approval, and prioritisation process
- review the appropriateness of the profile of each existing capital project spend
- assess the resources, internally and externally, which are needed to manage the Council's capital projects, including finance and project management resource
- assess the adequacy of current risk management, monitoring and oversight of the Council's capital projects

#### Why/impact

The recommendation will help ensure capital project activities are optimally planned, managed, and delivered, reducing the level of slippage seen previously.

#### Auditor judgement

We are aware the Council has committed to review some elements of its capital activities as part of the corporate peer challenge 2023 action plan report, considered by full Council on 18 January 2023. We consider the scope of the action plan should be widened.

#### Summary findings

The Council has historically underutilised its capital budget and an extended review of the Council's approach to the capital project activities will help the Council identify opportunities for optimising capital project delivery and support the Council's corporate objectives.

#### Management Comments

The Council will review the approach it takes to the capital estimates for schemes included in the Capital Programme. This will cover robustness of the proposed expenditure profiles.



The range of recommendations that external auditors can make is explained in Appendix C



# Improvement recommendations



## Financial sustainability

### Recommendation 2

We recommend the Council introduces wider financial scenario planning within its MTFS and to include such information in annual budgeting setting reports.

### Why/impact

Assessing the reasonable best, worst and optimum financial scenarios when setting the Council's budget and medium-term financial plans would enhance the Council's strategic financial planning and support the Council's financial sustainability, and flexibility, to accommodate a range of potential scenarios.

### Auditor judgement

Councils continue to operate with a lack of funding certainty in part due to continued delays to the fair funding review and the implementation of the business rate baseline reset but also due to external factors such as inflation and rates of economic growth which could lead to different financial scenarios.

### Summary findings

An assessment of financial scenarios as part of the MTFS would enhance transparency and support financial sustainability.

### Management Comments

The MTFS review and preparation process already includes the use of scenarios to model the impact of decisions and the external economic environment. The published MTFS should be viewed as the most credible view of the Council's financial position.

It is recognised that providing the scenario planning as part of the MTFS would assist members in understanding the financial risks inherent in longer-term financial planning. We will include as an Annex to the MTFS report.



The range of recommendations that external auditors can make is explained in Appendix C

# Improvement recommendations



## Financial sustainability

### Recommendation 3

We recommend the Council develops and agrees the following:

- A Publica workforce strategy, and aligned Council workforce strategy, that supports the delivery of the Council’s corporate priorities and medium term financial strategy and assists the Council to address the relevant workforce recommendations made as part of the corporate peer challenge
- An asset management strategy that is aligned to the Council’s corporate plan 2020 – 2024 and Climate Emergency Strategy 2020-2030 that supports the Council in the delivery of its objectives through the management of physical assets in line with the Council’s medium term financial strategy



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### Why/impact

The development and introduction of a workforce strategy and asset management strategy would strengthen the Council strategic planning and support financial sustainability

### Auditor judgement

A workforce strategy and asset management strategy, will support the Council to identify allocate resources accordingly which will support the Council’s financial planning.

### Summary findings

The absence of a workforce strategy and asset management strategy increase financial risk to the Council.

### Management Comments

The Council will develop a workforce strategy in response to the broad recommendations arising from the corporate peer challenge report. The strategy will assess the workforce requirements of service delivery, Council priorities and MTFS. The Council will work in partnership with Publica and other shareholders to agree a Publica workforce strategy. The Council is preparing a new Asset Management Strategy that will support the Council’s MTFS and wider objectives. This is anticipated to be considered by Cabinet in October 2023.

The range of recommendations that external auditors can make is explained in Appendix C

# Improvement recommendations



## Financial sustainability

### Recommendation 4

We recommend the Council agrees and adopts a liquidity indicator to monitor the amount of cash available to meet unexpected payments within a defined period, without the need for additional borrowing.

### Why/impact

The adoption of a liquidity indicator would strengthen the Council’s management of treasury risk, enhance existing cash flow planning, support the Council’s treasury management objectives, and increase transparency

### Auditor judgement

The Council’s Treasury Management Strategy does not currently include a voluntary measure of liquidity and the inclusion of a liquidity measure would support the Council’s financial planning.

### Summary findings

A liquidity indicator would support the Council to manage exposure to liquidity risk and optimise financial planning and treasury management activities.

### Management Comments

The Council will work with the Council's Treasury Management advisors, Arlingclose, in defining and adopting an appropriate liquidity indicator for the 2024/24 Treasury Management Strategy.



The range of recommendations that external auditors can make is explained in Appendix C

# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit and Governance Committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Risk Management

The Council's risk management arrangements were assessed by internal audit during 2021/22. Internal audit issued a risk management position statement in September 2021 which explained an assurance opinion had not been issued due to the level of planned improvements ongoing in respect of the Council's risk management processes, but an action plan had been agreed between internal audit and the Council, based on internal audit observations, which included the development and approval of a new risk management strategy.

The Council acted on the recommended internal audit action plan and on the 23 November 2021 the Audit and Governance Committee considered a report on a revised Risk and Opportunity Management Strategy for approval. The revised Risk and Opportunity Management Strategy described how the Council, and Publica, would evaluate and manage business risks to ensure the effective operation of the Council and support the delivery of its corporate plan. The Risk and Opportunity Management Strategy explained how risk management responsibilities were embedded throughout the Council and Publica with strategy clearly assigning specific risk management functions to roles across both organisations, including members of the Council. The layered approach to organisational risk management and the assignment of specific risk management responsibilities demonstrates good practice.

The Risk and Opportunity Management Strategy is supported by a management guide which is intended to supplement the strategy by setting out in detail the processes and procedures to be followed by officers in respect of risk management activities.

Additionally the strategy stated that training will be provided to all officers, appropriate to their level of responsibility. We understand from Publica the next risk management training for officers is scheduled for May 2023.

Internal audit conducted a follow up audit to assess the Council's implementation of agreed actions identified within risk management position statement and the follow up report, issued to the Council in April 2022, confirmed recommended actions had been completed and a risk management review would be undertaken in 2022/23 to assess the effectiveness of the new controls introduced.

The Council maintains and regularly reviews a corporate risk register which identifies key risks that may prevent the organisation meeting its business objectives alongside mitigations for those risks. Each quarter the Audit and Governance Committee reviews the corporate risk register.

The corporate risk register for quarter two 2021/22 was reviewed by the Audit and Governance Committee on 23 November 2021. The corporate risk register report identified 27 risk areas graded to determine both the likelihood and the impact of the risk occurring using a 5 by 5 evaluation criteria. Each risk was allocated a designated owner, red, amber and green (RAG) graded, and the risk register included descriptions of existing controls, mitigations or contingencies and a narrative of risk responses and further actions that were required, and each risk had a direction of travel. Minutes of this Audit and Governance Committee showed active engagement from members in assessing the Council's risks and controls demonstrating effective oversight.

# Governance (Cont'd)

## Internal Audit

Internal audit is provided by South West Audit Partnership (SWAP). SWAP can demonstrate compliance against the Public Sector Internal Audit (PSIA) Standards due to an external quality assessment having been conducted in May 2020.

Internal audit activity at the Council is reviewed by the Audit and Governance Committee quarterly. The Council's proposed internal audit plan report 2021/22 was considered by the Audit and Governance Committee on 29 April 2021. The 2021/22 internal audit plan report stated that the programme of internal audit activity for 2021/22 was informed by:

- a risk assessment, conducted by SWAP.
- the input of senior management.
- the review of the Council's risk register.

The Internal audit assessment of various source of relevant information to inform the internal audit plan is in line with good practice.

The proposed internal audit plan 2021/22 included 27 audits with the proposed programme of work to be reviewed quarterly, by the Council and SWAP, to ensure alignment with any new and emerging sector risks. The quarterly assessment of the suitability of planned internal audit coverage, to accommodate emerging risk areas, provides agility to the internal audit plan and represents good practice.

The Internal Audit Annual Report for 2021/22 was considered by the Audit and Governance Committee on 21 July 2022, this report stated that 84% of internal audits were completed, marginally below, the set target of 90%. However, 7% of planned internal audits were in progress or at review stage. This represents reasonable performance considering SWAP conducted additional added value work, not within the original work plan, to support the Council's response to the Covid-19 pandemic.

The report included the Head of the Internal Audit opinion on the overall adequacy and effectiveness of the system of internal control in operation at the Council. The opinion's conclusion was:

'on the balance of our 2021/22 audit work for Cotswold District Council, enhanced by the work of external agencies, I am able to offer a High Reasonable Assurance opinion in respect of the areas reviewed during the year'.

## Prevention and Detection of Fraud

The Council's, and the Council's resourcing partner Publica, have a comprehensive suite of policies describing the approach to minimise fraud, bribery and corruption. These include Counter Fraud and Anti-Corruption Policy, Whistleblowing Policy, Publica Business Conduct (for Publica employees last updated in 2021), Code of Conduct for Council (retained) Employees and Councillor Code of Conduct. The Code of Conduct for Council (retained) Employees is dated 17 December 2007. An improvement recommendation is made in respect of the Code of Conduct for Council (retained) employees to be updated during 2023 as this is a key document supporting the Council's approach and controls in the prevention and detection of fraud.

The Council operates a Counter Fraud and Enforcement Unit, a shared service between the Council, Forest of Dean District Council, West Oxfordshire District Council, Tewkesbury Borough Council, Cheltenham Borough Council and Publica, which provides specialist officers to investigate all allegations of internal and external fraud.

The activities of the Counter Fraud and Enforcement Unit relating to the Council are reviewed by the Audit and Governance Committee biannually. On 28 April 2022 the Audit and Governance Committee considered Counter Fraud and Enforcement Unit Report which included a proposed work plan for 2022/21 and a summary of the Counter Fraud and Enforcement Unit activities during 2021/22 which included:

- Post payment verification of business grants and test and trace support payments.
- Investigation of National Fraud Initiative data matches.
- Review of single person discounts and Local Council Tax Support claims.
- Licensing investigations.
- Support for disciplinary investigations.

The activities of the Counter Fraud and Enforcement Unit demonstrates the Council's commitment to the prevention and detection of fraudulent activities, and this demonstrates good practice.

# Governance (Cont'd)

## Budget Setting

The Council's budget setting process follows a detailed project plan, prepared by the finance team, which sets out key budget setting actions and responsibilities which supports effective and timely planning and demonstrates good practice.

The budget setting process begins in May and includes a series of internal budget meetings between the Portfolio Holder for Finance, Chief Executive Officer, Deputy Chief Executive and Section 151 Officer within which the Council assesses and updates the existing MTFS to reflect the Council's current financial position and corporate priorities. This process was supported by external insight data regarding the local government funding outlook.

During June and July the finance team hold meetings with all budget managers, including Publica and Ubico (the Council's environmental services delivery partner), to capture relevant financial information to inform the budget setting process. These meetings identify opportunities for savings or income generation, service budget pressures, external factors that might have a budgetary impact, implications from the implementation of the corporate plan and the meetings also include a review of capital project activity, discretionary spend and earmarked reserves. The output of the meetings is captured and assessed by the finance team who then produce budget working papers that were assessed further by the Portfolio Holder for Finance, Chief Executive Officer, Deputy Chief Executive and Section 151 Officer. During September further meetings are held between the Council, Publica and Ubico with a specific focus on agreement of growth and savings items. Once agreed final budget papers formed.

The draft Medium Term Financial Strategy and Budget 2021/22 report was first considered by Cabinet on 7 September 2020, this report detailed draft revenue and capital budget proposals for 2021/22 and included a MTFS for 2021/22- 2024/25. Unavoidable budget pressures, proposed savings, Council corporate priority spending, level of reserves and an assessment of the financial risks facing the Council were all clearly set out within the report along with proposals for a public consultation.

The draft Medium Term Financial Strategy and Budget 2021/22 report was considered by the Overview and Scrutiny Committee on 1 December 2020, demonstrating early oversight of draft budget proposals. On 4 January 2021 Cabinet considered a report detailing the feedback received from the public consultation on the 2021/22 budget proposals, that had taken place between 4 November to 11 December 2020. Responses to the public consultation were published in full which supports transparency and is in line with good practice.

On 28 January 2021 Audit and Governance Committee assessed the 2021/22 draft Capital, Investment and Treasury Management Strategies, minutes of this meeting demonstrate active engagement of members with feedback from the Audit and Governance Committee, being provided to the Cabinet for consideration as part of the Council's budget setting process.

Overview and Scrutiny again assessed the draft Medium Term Financial Strategy and Budget 2021/22 report on 2 February 2021 which included details of the provisional Local Finance Settlement and the latest financial position of the Council. Cabinet, on 8 February 2022 considered the final draft report in respect of Medium Term Financial Strategy and Budget 2021/22, with the minutes of the cabinet meeting referring to the input given by both the Overview and Scrutiny Committee and Audit and Governance Committee and how such input has been taken into account in the budget setting process. On 25 February 2022 full Council approved a balanced budget based on the recommendations from Cabinet.

The Council's budget setting process is well planned and thorough, it takes into account a wide range of relevant factors and incorporates these into detailed budget reports which are then assessed through several stages of member oversight representing good practice.

## Budget Monitoring

The Council finance team resource, aside from the Council's Section 151 Officer, is provided by Publica. Publica uses a central financial management system, Agresso. Responsibility for updating budgets forecasts within the finance systems rest with the finance team although budget holders have read only access.

Quarterly meetings are held between the finance team and budget holders to complete a budget forecast and identify any variances against the original budget set, and the reasons for them. The output of these meetings are then recorded by the finance team within a system separate to the Agresso finance system. We understand from Publica that the Agresso system has not been optimised to included forecasting or collaborative planning modules and this leads to an improvement recommendation. We recommend that the finance system is optimised to remove the need for forecasting to be recorded outside of the core finance system. We also recommend, as part of the system optimisation, collaborative planning is also considered, allowing budget holders to have greater system access.

# Governance (Cont'd)

## Budget Monitoring (Cont'd)

The utilisation of forecasting and collaborative planning modules could provide further efficiency to the budget monitoring process and reduce risk of error or data loss.

The finance team prepared quarterly 2021/22 budget monitoring reports based on the meetings held with budget holders, these reports included revenue and capital budget variances and other relevant service information that provided a supporting narrative to the forecasts. The 2021/22 budget monitoring reports were reviewed by the Overview and Scrutiny Committee quarterly.

On 31 August 2021 the Overview and Scrutiny Committee considered Financial, Council Priority and Service Performance Report – 2021-22 Quarter One. The budget monitoring reports stated reasons for variances, for both revenue and capital, and included non-financial contextual information giving depth to individual variances. Additionally, a full list of all budget variances formed an appendix to the main report which is good practice. In addition to the revenue and capital budget monitoring schedule, the Audit and Governance Committee provided oversight to the Council's treasury management functions. The Audit and Governance Committee considered the Treasury Management Mid Term Report 2021/22 on 21 October 2021 and the full year Treasury Management Outturn Report 2021/22 on 29 September 2022.

## Council Decision Making

The Council operates a cabinet and Council leader model of governance, known as the executive, supported by several committees. The Council publishes on its website details of all cabinet, committee and full Council meetings, and this includes the agendas, minutes and decisions made. During 2021/22 the Council introduced live broadcasting of formal Council meetings which enhances transparency and demonstrates good practice.

The Council's constitution, published on the Council's website, sets out how Council decisions are made and the procedures which are followed to ensure that these are efficient, transparent, and accountable to local people.

The Council operates a cross party constitution working group. The aims of this group includes a regular review of the Council's constitution and to make recommendations regarding proposed changes. On 5 October 2022 an extraordinary meeting of full Council considered a report, Constitution of the Council, which recommended several changes were made to the constitution following a review, conducted by the constitution working group.

The Council's review of the constitution, supported by a Constitution Working Group, enhances the Council's governance arrangements and supports the Council's duty to annually review its constitution with any necessary changes being considered by full Council.

Oversight of decisions proposed and made, by the executive is provided by the Council's Overview and Scrutiny Committee. The Overview and Scrutiny Committee met six times during the financial year 2021/22. Minutes of these meetings show a range of topics being assessed, including a meeting of the Overview and Scrutiny Committee on 01 February 2022, to consider a call-in accordance with Part 14.13 of the Council's constitution, demonstrating active participation of members and a willingness to challenge decision made by the executive. The Council also operates an Audit and Governance Committee, which provides oversight to the Council's arrangements for governance, managing risk, maintaining an effective control environment, and both financial and non-financial performance. The Council's Audit and Governance Committee met five times during 2021/22, minutes of these meetings reflect regular attendance of committee members and active member input in the examination of papers within the Audit and Governance Committee terms of reference.

As already referenced, within the financial sustainability section of this report the LGA conducted a Corporate Peer Challenge in October 2022. The report also included recommendations regarding the Council's governance arrangements as follows:

- The Council needs to reassure itself that its governance arrangements are robust
- Determine what Overview and Scrutiny is there to do and provide the appropriate support to it
- Establish a training and development programme for elected members

The Council has responded to each of the key recommendations above, as part of the corporate peer challenge 2023 action plan report, that was considered by full Council on 18 January 2023. The corporate peer challenge 2023 action plan includes a series of development actions in respect of the Overview and Scrutiny Committee and the Audit and Governance Committees and includes a plan to establish a refreshed training and development programme for all elected members.

# Governance (Cont'd)

## Council Decision Making (Cont'd)

The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the 'Audit and Governance Committees: Practical Guidance for Local Authorities and Police 2022', which deals with the function and operation of Audit and Governance Committees and represents best practice for Audit and Governance Committees in local authorities throughout the UK, the guidance also includes a self-assessment tool to identify areas of improvement, and this leads to an improvement recommendation. We recommend the Council's conducts a self-assessment exercise, in line with CIPFA guidance, which will support the Audit and Governance Committee to evaluate its impact and identify areas for improvement which then can be included within the corporate peer challenge 2023 action plan.

## Appropriate Standards

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On 29 September 2022 the Audit and Governance Committee considered the Council's Annual Governance Statement for 2021/22 which included reference a wide range of relevant policies, frameworks, controls that are in accordance with an effective governance framework. The Annual Governance Statement for 2021/22 also included an action plan of activity to be undertaken during 2022/23 to further develop the Council's governance arrangements which represents good practice. During the same meeting the Audit and Governance Committee considered the 2021/22 annual report of standards issues, including complaints against members.

The report detailed that there had been seven member complaints received during 2021/22, the majority of which were either withdrawn, or had no further action taken, with all member complaints being investigated in line with the Council's Member Code of Conduct, which forms part of the Council's constitution and adopts the Local Government Association Model Code of Conduct which demonstrates good practice.

The Council's constitution includes gifts and hospitality guidelines for members and officers, and these clearly set out expectations, procedures, and monitoring controls. Member gifts and hospitality declarations are published under each member's profile on the Council's website which supports transparency.

Publica, the Council's resourcing partner, introduced during 2021/22, an online gifts and hospitality declaration process for officers which is managed and overseen by the Human Resources team.

The Council has a register of Data Breaches that is updated regularly, and we have reviewed the register and can find no evidence of significant data breaches during 2021/22. In completion of the Annual Auditors Report for 2021/22 we have found no evidence of breaches of legislation or regulatory standards during the 2021/22 year nor is there evidence of significant or repeated departure from regulatory or statutory requirements or professional standards.

## Finance function capacity

As set out on page 39 of this report the Council has a track record of producing complete, accurate and timely draft financial statements. The scope of external audit challenge has increased in recent years and the 2021/22 audit has highlighted the lack of capacity within the Council's finance function. Specifically as reported in our ISA260 Audit Findings Report, in our view, there is not sufficient skilled finance expertise below the Section 151 officer and Chief Accountant to support the multiple responsibilities of a local Government finance team. The reliance on the Chief Accountant, who has taken on almost sole responsibility for supporting the external audit process, means that timely audit completion is compromised.

We recommend that the Council strengthen its finance capacity to enable it to commit sufficient time to all aspects of internal and external financial reporting.

## Conclusion

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements. We have made four improvement recommendation which are set out on pages 25 to 28.



# Improvement recommendations



## Governance

### Recommendation 5

We recommend the Code of Conduct for Council (retained) employees (2007) is updated and agreed during 2023 as this is a key document supporting the Council's approach and controls in the prevention and detection of fraud.

### Why/impact

The Council's code of Conduct for (retained) Employee's is a key document describing the Council's expectations and controls in respect of retained employee conduct.

### Auditor judgement

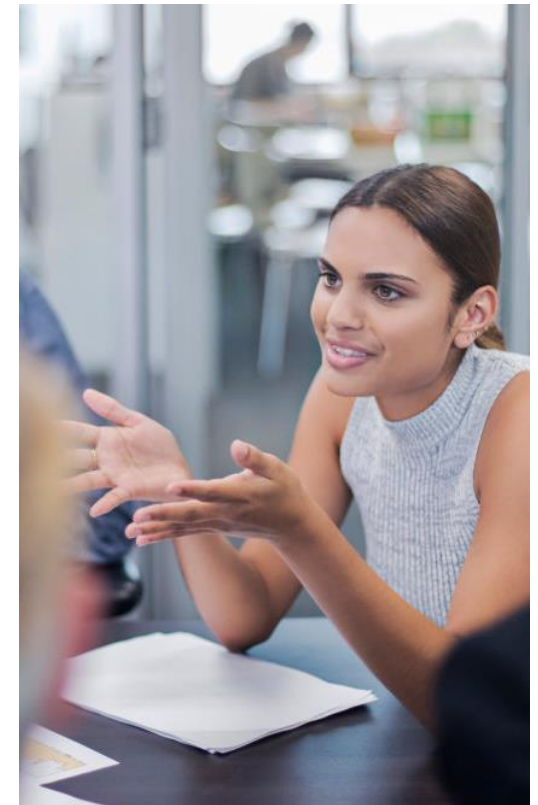
The Council's Code of Conduct for (retained) Employees should be current and aligned to current risks, themes and organisational values.

### Summary findings

The Council's governance arrangements would be improved by updating the Code of Conduct for (retained) Employee's.

### Management Comments

Publica employed staff 'fall under' their Code of Conduct (2021). The Council is reviewing the 2007 Code of Conduct in light of the Publica document and will adopt an updated Code of Conduct for Council (retained) employees by December 2023.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

### Recommendation 6

We recommend that the finance system is optimised to remove the need for forecasting to be recorded outside of the core finance system. We also recommend, as part of the system optimisation, collaborative planning is also considered, allowing budget holders to have greater system access.

### Why/impact

The utilisation of forecasting and collaborative planning modules could provide further efficiency to the budget monitoring process and reduce risk of error or data loss.

### Auditor judgement

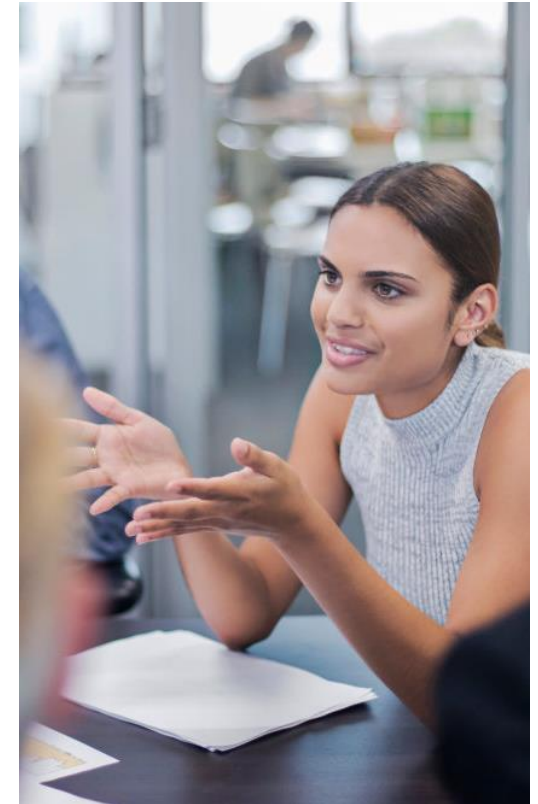
The use of two separate systems to record budget monitoring could increase risk to the Council in its management of financial data. Also budget holders have limited access to the finance system. Increasing finance system permissions to budget holders, as part of the finance system optimisation, could also drive efficiencies for the Council.

### Summary findings

The Council's finance system requires optimisation to reduce risk and support efficient processes.

### Management Comments

Council and Publica are working in partnership on an improvement plan/roadmap for Agresso financial system. This will focus on improving the financial reporting and forecasting processes. The Council will agree a roadmap and investment requirement over coming months and consider as part of budget setting process for 2024/25.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

### Recommendation 7

We recommend the Council's conducts a self-assessment exercise, in line with CIPFA guidance, which will support the Audit and Governance Committee to evaluate its impact and identify areas for improvement.

### Why/impact

A self assessment exercise could identify further areas of Audit and Governance Committee development that could then strengthen planned activity within the Council's corporate peer challenge 2023 action plan.

### Auditor judgement

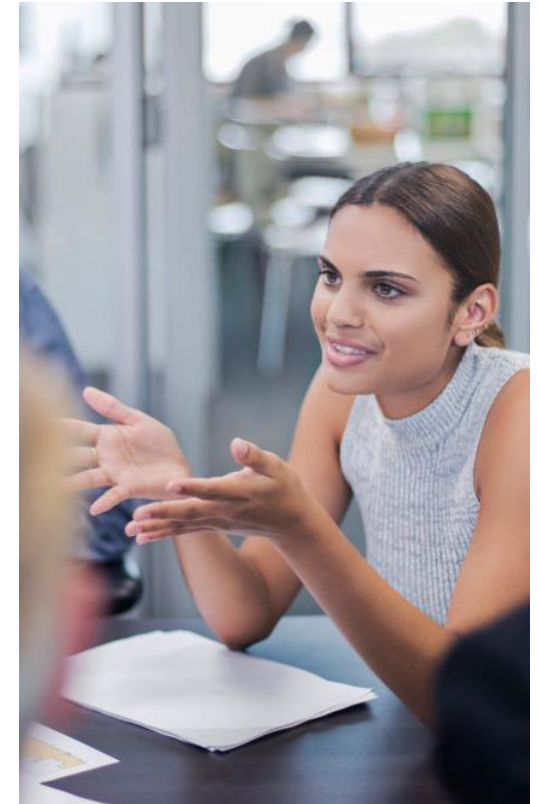
The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the 'Audit and Governance Committees: Practical Guidance for Local Authorities and Police 2022', which deals with the function and operation of Audit and Governance Committees and represents best practice for Audit and Governance Committees in local authorities throughout the UK, the guidance also includes a self-assessment tool to identify areas of improvement which could be utilised to support the Council to strengthen its governance arrangements.

### Summary findings

The Council's Audit and Governance Committee provides effective oversight. The recommendation seeks to enhance these provisions even further.

### Management Comments

The Council will include a self-assessment exercise and report as part of the Audit and Governance Committee's workplan for the 2023/24 municipal year.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

### Recommendation 8

We recommend that the Council strengthens its finance capacity to enable it to commit sufficient time to all aspects of internal and external financial reporting.

### Why/impact

Additional finance resource would provide additional capacity and contingency to the support the financial functions and responsibilities of the Council.

### Auditor judgement

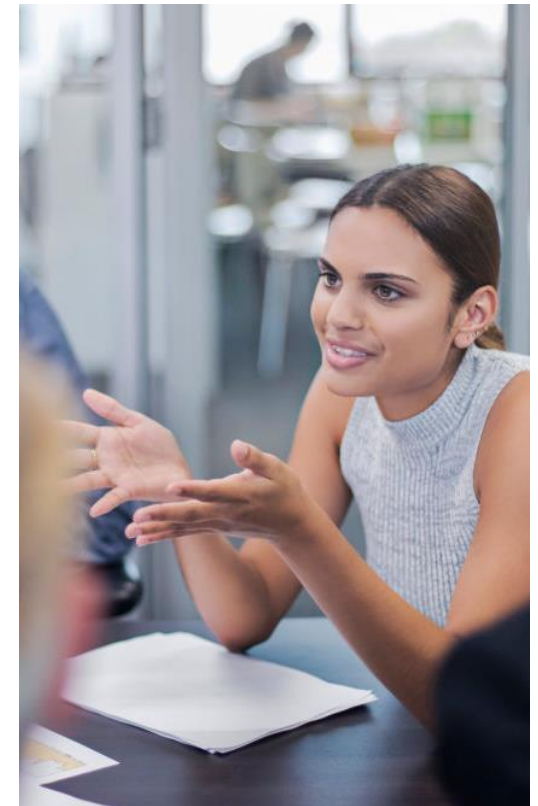
The scope of external audit challenge has increased in recent years and the 2021/22 audit has highlighted the lack of capacity within the Council's finance function. Specifically as reported in our ISA260 Audit Findings Report, in our view, there is not sufficient skilled finance expertise below the Section 151 officer and Chief Accountant to support the multiple responsibilities of a local Government finance team.

### Summary findings

The reliance on the Chief Accountant, who has taken on almost sole responsibility for supporting the external audit process, means that timely audit completion is compromised.

### Management Comments

The Council is in discussions with Publica on how the Finance Service can be strengthened including consideration of structures, staffing levels, skills and experience.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

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## Managing Performance and Benchmarking

The Council's corporate plan 2020-2024 has three overarching principles, one of which is 'providing value for money for our residents and businesses' which is underpinned by a corporate plan commitment to 'deliver the highest standard of services' which demonstrates the Council's strategic commitment to delivering cost effective and performing services.

The Council has an established regime of performance management supported by oversight and governance. Each financial quarter, the Overview and Scrutiny Committee, and then Cabinet assess a Council Financial, Council Priority and Service Performance Report. This report is divided into three sections:

- Progress on actions in the Corporate Plan.
- Service performance report.
- Financial performance including budget monitoring.

The Council's Financial, Council Priority and Service Performance Report provides a comprehensive suite of information and data tracking the Council's performance across key areas.

The Council sought to strengthen its performance monitoring during 2021/22 by the formation of member led task and finish group with a remit to 'review the current data provided as part of the quarterly performance report with a view to establishing whether it is fit for purpose'.

Initial recommendations of this task and finish group were presented to the Overview and Scrutiny Committee on 21 March 2023 with recommendations to amend the presentation of individual performance indicators being considered by the Council for adoption later in 2023.

The Council's collation of strategic, service and financial performance in one report, which is then subject to oversight and scrutiny, provides ease of comparison, supports transparency and highlights the interdependency of key performance areas which demonstrates good practice.

As part of our work we have assessed indicators from the Grant Thornton and CIPFA financial benchmarking tool CFO Insights. This compares unit costs for a range of services, using revenue outturn data for 2021/22, and then benchmarks the Council's unit costs with its statistical nearest neighbours. Of the six main revenue outturn service groupings the Council's cost of provision was average or very low for housing services, planning and development, highways and transport and cultural and related services. Environmental and regulatory services and central services identified as very high in comparison to statistical neighbours, specifically in relation to cemetery services, climate change costs, flood defences, recycling, street cleansing and central services provided to the public. The 2020/21 Auditors Annual Report included an improvement recommendation for the Council to undertake a review of revenue outturn data to understand variances in unit costs with statistical neighbours, the Council responded to this recommendation and stated unit cost analysis would be implemented through the budget setting process for 2023/24.

As already referenced earlier in this report, the LGA conducted a corporate peer review of the Council in October 2022. The LGA feedback report described the Council's service delivery performance as 'mixed' in comparison to other statistical neighbours when utilising data from LG Inform, a benchmarking tool provided by the LGA and available to the Council.

# Improving economy, efficiency and effectiveness (Cont'd)

## Managing Performance and Benchmarking (Cont'd)

The LGA feedback noted that performance benchmarking had identified the Council was performing well in respect of waste and recycling rates however the Council needed to be mindful in respect of the performance, based on 2021/22 data, of revenue collection, the percentage of vacant dwellings in the district and the percentage of planning applications decided in time.

The Council has responded to these LGA recommendations as part of the corporate peer challenge 2023 action plan report, that was considered by full Council on 18 January 2023, with the Council stating it will complete the following actions:

- Initiate a (internal) value for money review to enable further benchmarking and analysis to take place.
- Re-set and revisit Publica Contract and service level agreement and key roles and responsibilities.
- Utilise 'nearest neighbour' analysis tools including LG Inform to provide a broader basis upon which to judge and manage performance and service delivery, via use of LG Inform or similar data set tools.
- Feed key performance review into overview and scrutiny work plan for performance setting metrics.
- Seek to become top quartile in terms of service delivery with regard to planning, non-domestic rates collection, vacant dwellings, council tax collected.
- Refresh target setting process, outcomes and processes to ensure that recognition of performance is broader than just Publica partner Council's.
- Ensure that Publica does not lose sight of the basics of service delivery in relation to the Publica Business Plan.

The Council's corporate peer challenge 2023 action plan report places a significant focus on the role of benchmarking data in assessing Council performance and value for money, sets a performance aspiration in respect of specific services and commits to a review of the Council's agreements with its main resourcing partner Publica. The action plan includes a timescale for commencement of individual actions but does not include specific delivery dates and this leads to an improvement recommendation.

We recommend the Council develops the corporate peer challenge 2023 action plan report to introduce a delivery timeline, for the significant actions proposed, under the performance and value for money section.

This would support the Council to drive forward its planned initiatives with pace but also help identify options that may help address the budget gaps identified in the MTFS 2023/24 – 2026/27 as already referenced within the financial sustainability section of this report.

## Significant Partnerships – Publica

As previously noted, Publica Group provides most of the Council's services.

The LGA Peer Challenge 2023 feedback report directly referenced the Council's partnership arrangement with Publica and included the following recommendations:

- Address the concerns of staff about the way they are treated by some senior leaders within the Council and the Publica organisation.
- Undertake more direct dialogue between the senior leadership of the Council and Publica in order to address the following issues:
  - The continued appropriateness of some functions remaining with Publica.
  - Where direction is set from, clarity of roles and where accountability sits.
  - How increased strategic capacity is provided to support the council.
  - Translating the political objectives into manageable deliverables.
  - Developing a focus on organisational culture and behaviour and staff well-being.

95% of officers providing Council services are employed by Publica and we particularly note that the LGA peer review has identified concerns regarding staff wellbeing, as included above.

We highlight this area as the well being of staff is a central consideration for organisational senior leaders. Fostering employee wellbeing is good for staff and the organisation. Promoting wellbeing can help prevent stress and create positive working environments where individuals and organisations can thrive.

# Improving economy, efficiency and effectiveness (Cont'd)

## Significant Partnerships – Publica (Cont'd)

The Council has committed to series of actions, as part of the corporate peer challenge 2023 action plan report, to address these wellbeing concerns which include:

- Clarifying process of member engagement with staff with reference to email communications.
- Aligning the (Publica) 'Great Place to Work' project to the Publica Investors in people programme of work to ensure consistency
- Revisiting Publica's focus on organisational culture, values and behaviours and engage and work with the Staff Forum Group.

We consider these actions will support the Council and Publica to enhance staff wellbeing and demonstrates good practice particularly in relation to staff engagement.

## Transformation – Publica

We have been informed by the Council that its recently formed Cabinet Transform Working Group will oversee, shape and hold to account the Council, Publica and other partners in relation to transformation activity across the Council, with a particular focus on ensuring that service improvements and savings are delivered in line with the corporate strategy and MTFs. We also understand from the Council that Cabinet Transform Working Group will oversee and monitor the progress of all the actions relating to Publica as part of the Council's corporate peer challenge 2023 action plan report.

We recognise the importance of transformational activity to support the delivery of the Council's corporate plan and MTFs, and that this could lead to significant changes to how services are delivered within Publica and the Council. We consider that staff engagement during transformational activity is an essential requirement especially considering the recommendation following the LGA peer review in respect of staff wellbeing. We recommend the Council and Publica implements a framework to disseminate information, regarding the Cabinet Transform Working Group, to staff in order that updates can be provided in respect of any proposed areas of transformation. Leadership from the Council and Publica in this area will strengthen transparency and support the effective operation of this key partnership.

## Significant Partnerships – SLM Leisure

SLM operate leisure and cultural facilities on behalf of the Council. The arrangement with SLM Leisure includes the payment of an annual management fee to the Council of £0.1m.

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The provider has been impacted by the Covid-19 pandemic and this has required further intervention from the Council during 2021/22. The Council's Cabinet, on 04 July 2022, considered the Financial, Council Priority and Service Performance Report 2021/22 - quarter four, and this detailed that the Council had provided £0.28m of financial support to SLM for the period April to July 2021 whilst leisure centres were closed due to Covid-19 restrictions. The report explained financial support was paid to SLM under open book arrangements and the financial support had been in part funded by grant funding of £0.1m from the National Leisure Recovery Fund. The management fee for the period April 2021 to July 2021 was also waived by the Council. The Council's intervention to support its leisure provider manage the impact of Covid -19 shows active management of the issue by the Council, aligns to a priority within the Corporate Plan 2020-2024, being 'support health and well-being' and reflects similar interventions across the sector to support leisure providers weather the impacts of Covid-19.

## Leisure and Cultural Management Option Appraisal

On 1 March 2021 Cabinet considered a report to review the findings and recommendations proposed by external consultants commissioned to develop a Leisure Strategy for the District. Within the report it was recommend that a leisure management options appraisal was conducted to determine the most suitable delivery model, contract scope and contract terms for the Council's leisure facilities and for leisure consultants to be appointed to undertake the options appraisal on behalf of the Council. To support the leisure management options appraisal process a cross party Leisure and Cultural Provision Working Group was established with the purpose of helping to determine the best delivery model for the provision of sustainable leisure and cultural activities provided in Council owned facilities.

On 9 May 2022 Cabinet considered a report in respect of the options appraisal of leisure and culture management arrangements and Cabinet granted authority for officers to commence procurement exercise for the operation of the Council's leisure and cultural facilities. As part of this process, we understand from the Council that a project board was established which included the Cabinet Member for Health and Wellbeing, Senior Officers from the Council and Publica, internal audit, legal advisors and leisure consultants.

# Improving economy, efficiency and effectiveness (Cont'd)

## Leisure and Cultural Management Option Appraisal (Cont'd)

As part of the procurement exercise, Overview and Scrutiny Committee were provided with key updates on the procurement process in October 2022 and February 2023. Cabinet, on 13 March 2023, considered the award of contracts for the management of the Council's leisure and culture facilities. The review of the Council's leisure and cultural service has been extensive, supported by external advice and underpinned by appropriate governance. The outcome of the leisure services procurement exercise will be considered in more detail within the 2022/23 auditors annual report.

### Procurement

The Council's Procurement and Contract Management Strategy is dated 2015, and we understand from the Council this is in the process of being revised with the new strategy scheduled to be considered by Cabinet in June 2023. We understand from the Council this new version will be aligned to Council's corporate plan 2020 – 2024 and climate emergency strategy 2020-2030, will reflect the duties placed on the Council to tackle modern slavery and will also include reference to the Council's obligations from the Public Services (Social Value) Act 2013. This represents good practice.

The Council has a procurement resource online portal that provides officers with self-serve procurement advice, guidance, and resource materials including a commissioning and procurement user guide which clearly sets out procurement thresholds, roles and responsibilities and key processes. We consider the online portal is an effective way of disseminating procurement information throughout the Council.

The Council's commissioning and procurement user guide refers to the existence of a procurement board that is required to assess all new or existing contracts above a £0.1m value threshold representing an effective procurement control. The role of the procurement board is not referenced within the Council's contract procedure rules which form part of the Council's constitution. We recommend the Council reviews the contract procedure rules to ensure they fully align with developments in the Councils procurement and contract management process.

### Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place in its oversight of economy, efficiency and effectiveness. We have identified three opportunities for improvement which are set out on pages 33 to 35.





# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 9

We recommend the Council develops the corporate peer challenge 2023 action plan report to introduce a delivery timeline for the significant actions proposed under the performance and value for money section.

## Why/impact

This would support the Council to drive forward its planned initiatives with pace but could also help identify options that may help address the budget gaps identified in the MTFS 2023/24 – 2026/27 as already referenced within the financial sustainability section of this report.

## Auditor judgement

The Council has included commencement dates for significant actions proposed under the performance and value for money section of the Council's corporate peer challenge 2023 action plan. The additional of delivery timelines would support the Council's planned activity.

## Summary findings

The inclusion of delivery timelines within the 2023 action plan would support timely delivery of significant actions.

## Management Comments

The Council will include a delivery timeline for the significant actions arising from the corporate peer challenge. This will be included in an update on the action plan due to be considered by members in September 2023.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 10

We recommend the Council and Publica implements a framework to disseminate information, regarding the Cabinet Transform Working Group, to staff in order that updates can be provided in respect of any proposed areas of transformation.

## Why/impact

Leadership from the Council and Publica in this area will strengthen transparency, help manage change and support the effective operation of this key partnership.

## Auditor judgement

The Council has responded to recommendations within the LGA peer review relating to Publica which included concerns regarding staff wellbeing. The Council's planned actions could be enhanced by further communication and liaison with Publica staff regarding a transformational activity.

## Summary findings

The LGA Peer Challenge 2023 – feedback report directly referenced the Council's partnership arrangement with Publica and the wellbeing of Publica staff. The Council and Publica should seek to engage Publica staff more in respect of the activities of the Cabinet Transform Working Group.

## Management Comments

Cabinet Transform Working Group meetings will include a standing item on communications as part of its Agenda but conscious that some of the discussions will remain sensitive. The Council accepts the recommendation that a protocol should be in place around what/when/how to communicate.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 11

We recommend the Council reviews its contract procedure rules to ensure they fully align with the Council's procurement and contract management process.

### Why/impact

The Council's contract procedure rules form part of the Council's constitution and should align completely with procurement process and threshold requirements, such alignment will reduce risk to the Council.

### Auditor judgement

Current procurement procedures require officers to refer any contract with a value in excess of £0.1m to the Council's procurement board for consideration and oversight. This requirement is not referenced within the Council constitution.

### Summary findings

The alignment of the Council's constitution to current procurement threshold procedure will strengthen the Council's procurement arrangements.

### Management Comments

Agreed. Contract Procedure Rules are to be reviewed by the Constitution Working Group no later than December 2023. Cabinet will consider the Procurement Strategy in July 2023.



The range of recommendations that external auditors can make is explained in Appendix C.

# Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council should carefully monitor its investment strategy so that forecast additional savings (new sources of income and reduced costs) are generated in line with the assumptions in the MTFS	Improvement	June 2022	Within the annual auditors report for 2020/21 the Council stated that management accepts the recommendation and has put in place a Capital Programme Investment Board, comprising of a cross-party group of Members to consider business cases for investment, monitor and drive delivery of the Recovery Investment Strategy	Yes	No
2	The Council should ensure continued close in year monitoring and timely corrective action will be required to ensure savings are delivered and service redesign with partners are successfully implemented	Improvement	June 2022	Within the annual auditors report for 2020/21 the Council stated that they had already commenced the refresh of the Council's MTFS and preparation for the budget in 2023/24. Engagement with the Cabinet will commence in July 2022. The Council receives monthly financial performance reports from Ubico, which will identify the impact of inflation, particularly on the cost of vehicle fuel and employee costs. Similarly, Publica provides an update on a quarterly basis to its board which is shared with Council Officers. Car parking revenue has been significantly affected by the Covid-19 pandemic as demand reduced. The income stream is reported weekly to the Cabinet Member along with other performance metrics. Information from quarterly budget monitoring is used to inform development of the budget form 2023/24 and the MTFS	Yes	No
3	The Council should consider mapping risks to corporate objectives	Improvement	June 2022	Within the annual auditors report for 2020/21 the Council stated this recommendation will be considered by the Risk Management Group of officers and management will support its implementation	Yes	No
4	To undertake a review of 2020/21 Revenue Outturn data to understand variances in unit costs with statistical neighbours	Improvement	June 2022	This recommendation will be implemented through the budget setting process for 2023/24	Yes	No

# Follow-up of previous recommendations (Cont'd)

	<b>Recommendation</b>	<b>Type of recommendation</b>	<b>Date raised</b>	<b>Progress to date</b>	<b>Addressed?</b>	<b>Further action?</b>
5	The Council should continue to drive planned improvements with Publica, including reviewing the effectiveness of planned changes to contract monitoring, governance and reporting arrangements from Publica to key Council decision makers	Improvement	June 2022	Within the annual auditors report for 2020/21 the Council stated the Council is working closely with the Publica Executive Directors, Group Managers and Business Managers to find solutions to the financial challenges facing the Council. A Transformation working group is due to be set up to oversee the Publica Service Improvement Programme. The Chief Executive and Leader of the Council will continue to embed the improvements to governance arrangements which will make Publica more accountable for improving economy, efficiency and effectiveness	Yes	No

# Opinion on the financial statements



## Audit opinion on the financial statements

As at the 30 May 2023 our work on the Council's financial statements is substantially complete.

We are, however, awaiting the resolution of a national issue in respect of the net Pension Liability. Specifically, following the recent publication of the 31 March 2022 triennial valuation for Gloucestershire Pension Fund the updated information may require a revised calculation from the actuary. Until this is resolved we are not in a position to conclude in this area.

Subject to the satisfactory resolution of this outstanding issue we anticipated giving an unqualified opinion on the Council's financial statements for 2021/22.

## Audit Findings Report (AFR)

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit & Governance Committee in April 2023. The continued delay in concluding this work is due to the outstanding national pension fund liability issue.

## Preparation of the accounts

The Council provided draft accounts in line with the agreed timetable along with supporting working papers.

There is a recognition that capacity within the finance team remains a significant issue. We are of the view that there is not sufficient skilled finance expertise below the S151 officer and Chief Accountant to support the multiple responsibilities of a LG finance team. Specifically, the reliance on the Chief Accountant, who has for a number of years taken on almost sole responsibility for supporting the external audit process, means that timely audit completion is compromised.

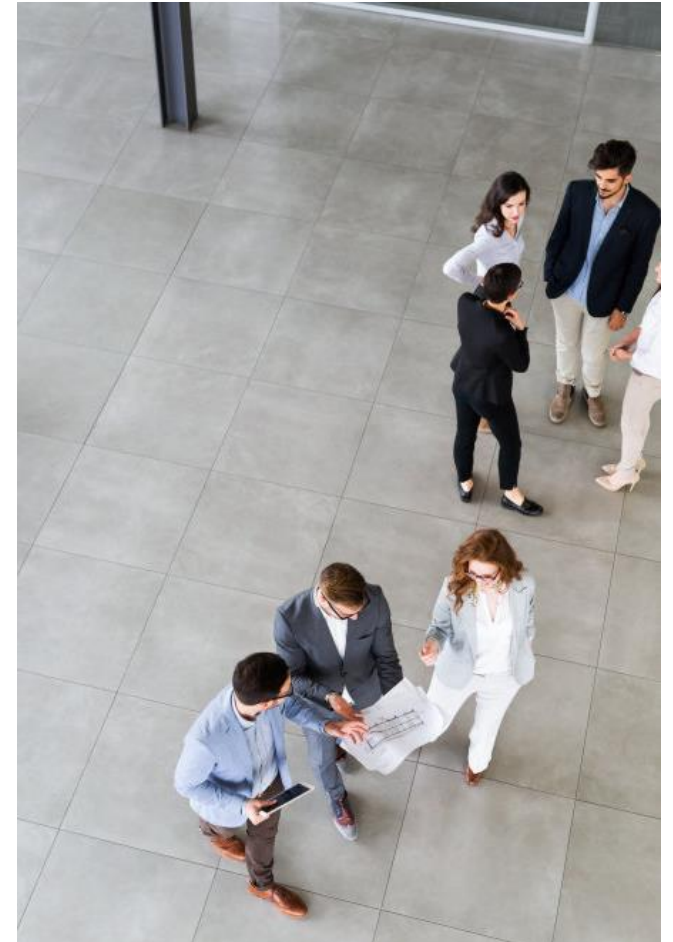
## Issues arising from the accounts

Our work to date has not identified any material errors or adjustments to the financial statements. No adjustments have been identified that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

The main adjustments arising as a result of the audit is in respect of carpark valuations which has resulted in a reduction of £650k to their carrying value.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



# Appendices

# Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

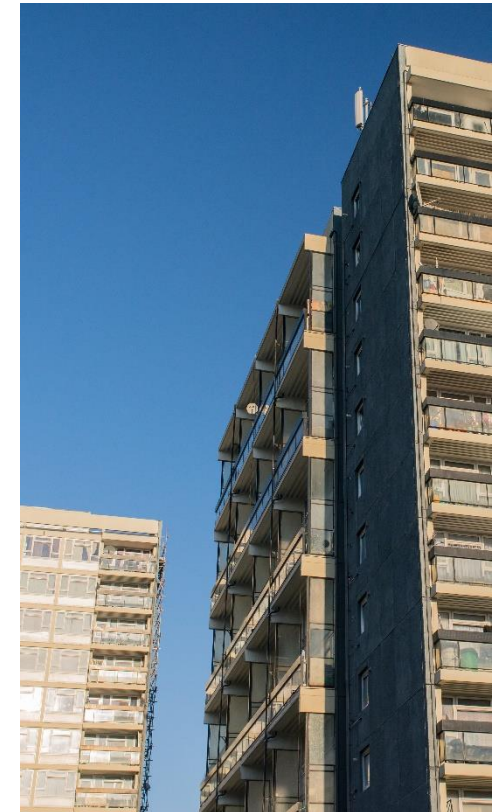
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.





# Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness during our initial planning	As part of our initial audit plan, we identified a risk of significant weakness in relation to financial sustainability reflecting the uncertainty, sector wide, regarding local government funding in the medium term and we have specifically assessed the Council's approach in managing this financial uncertainty.	Our subsequent work has not identified any significant weaknesses in arrangements to secure financial sustainability but has identified four improvement recommendations.	Appropriate arrangements in place and four improvement recommendations raised. Further details can be seen on pages 16 to 19 of this report.

# Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key Page 90	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	16 to 19 25 to 28 33 to 35

# Agenda Item 9



**COTSWOLD**  
DISTRICT COUNCIL

Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>AUDIT AND GOVERNANCE COMMITTEE – 25 JULY 2023</b>
Subject	<b>ANNUAL GOVERNANCE STATEMENT AND ACTION PLAN</b>
Wards affected	All
Accountable member	Cllr Joe Harris, Leader of the Council Email: <a href="mailto:joe.harris@cotswold.gov.uk">joe.harris@cotswold.gov.uk</a>
Accountable officer	Robert Weaver, CEO Email: <a href="mailto:robert.weaver@cotswold.gov.uk">robert.weaver@cotswold.gov.uk</a>
Report author	Cheryl Sloan, Business Manager, Governance, Risk & Business Continuity Email: <a href="mailto:cheryl.sloan@publicagroup.uk">cheryl.sloan@publicagroup.uk</a>
Summary/Purpose	This report presents the Audit Committee with the new Annual Governance Statement and Action Plan for 2023/24
Annexes	Annex A – Annual Governance Statement and Action Plan 2023/24
Recommendation(s)	<i>That the Audit and Governance Committee review and agree the revised Annual Governance Statement and Action Plan for 2023/24.</i>
Corporate priorities	All
Key Decision	No
Exempt	No
Consultees/ Consultation	N/A



## **1. EXECUTIVE SUMMARY**

- 1.1 The Audit and Governance Committee is the Committee of the Council charged with overseeing governance.
- 1.2 Regulation 4 of The Accounts and Audit Regulations 2011 require the Council to produce an Annual Governance Statement (AGS), setting out the Council's governance arrangements.
- 1.3 A progress update on the Annual Governance Action Plan for 2022/23 was presented to the Audit Committee on 27 April 2023. As part of the Annual Statement of Accounts, the Annual Governance Action Plan for 2023/204 has been developed and will be presented to Cabinet. The draft Annual Governance Statement (AGS) and Action Plan is being presented to the Audit and Governance Committee.

## **2. BACKGROUND**

- 2.1 The AGS provides an overview of the Council's governance arrangements and is based on evidence from a variety of sources.
- 2.2 The AGS incorporates the current governance arrangements and explains how some of these changed over the course of the year.
- 2.3 As part of this, an Annual Governance Action plan is developed, identifying the key areas of focus for the following financial year. There are 10 key actions within the 2023/24 Annual Governance action plan, these include:
  - Raising awareness of the new contract procedure rules
  - Financial Management
  - Risk Management
  - Emergency Planning
  - Portal Content Management
  - Business Continuity
  - New HR Policies
  - LGA Peer Review & Support
  - Review of service delivery model
  - Internal Audit Recommendations
- 2.4 The plan identifies the specific tasks that will be undertaken in the respective areas of focus and sets timescales for their completion.

## **3. ALTERNATIVE OPTIONS**

- 3.1 None.



#### **4. FINANCIAL IMPLICATIONS**

4.1 There are no financial implications arising from this report.

#### **5. LEGAL IMPLICATIONS**

5.1 There are no direct legal implications arising from this report.

#### **6. RISK ASSESSMENT**

6.1 If the Council's governance arrangements are weak then Council is at risk of failing to safeguard the use of public funds. In turn this would lead to poor external assessments, damaging the reputation of the Council. The areas of focus for the 2023/24 financial year identified in the AGS provide a clear set of priorities for the continual improvement of governance and mitigation of risk.

#### **7. EQUALITIES IMPACT**

7.1 An equalities impact assessment is not required for this report

#### **8. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

8.1 There are no climate or ecological emergency implications arising directly from this report.

#### **9. BACKGROUND PAPERS**

9.1 The following documents have been identified by the author of the report in accordance with section 100D.5(a) of the Local Government Act 1972 and are listed in accordance with section 100 D.1(a) for inspection by members of the public:

- Annual Governance Statement and Action Plan for 2022/23
- Draft Statement of Accounts for 2022/23

9.2 These documents will be available for inspection online at [www.cotswold.gov.uk](http://www.cotswold.gov.uk) or by contacting democratic services [democratic@cotswold.gov.uk](mailto:democratic@cotswold.gov.uk) for a period of up to 4 years from the date of the meeting.

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## **ANNUAL GOVERNANCE STATEMENT 2022/2023 (DRAFT)**

### **1. SCOPE OF RESPONSIBILITY**

Cotswold District Council is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards;
- Public money is safeguarded and properly accounted for;
- Public money is used economically, efficiently and effectively; and
- There is a sound system of governance, incorporating the system of internal control

The Council has a Best Value duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging these responsibilities, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

The Council has developed and approved a code of corporate governance, which is consistent with the core principles and sub-principles as set out in the CIPFA/SOLACE “Delivering Good Governance in Local Government: Framework (2016)” (‘the Framework’). This statement explains how the Council has complied with the code and also meets the requirements of Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 (England) which requires the Council to conduct a review at least once a year on the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.

In addition to this, CIPFA issued its “Statement on the Role of the Chief Finance Officer in Local Government (2015)”. The Annual Governance Statement (AGS) reflects compliance with this statement for reporting purposes.

### **2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled including activities through which it accounts to, engages with, and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- Identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives;
- Evaluate the likelihood of those risks occurring;
- Assess the impact should those risks occur; and
- Manage the risks efficiently, effectively and economically

The governance framework has been in place at Cotswold District Council for the year ended 31<sup>st</sup> March 2023 and up to the date of approval of the Annual Statement of Accounts.

In October 2022, we asked the Local Government Association to run a peer review, where councillors and officers from other councils come and visit and give an independent assessment of how the council operates. It is good practice to have one of these reviews every 3-4 years, with the last review taking place in 2019, and the report is intended to point out what is working well and where the council can continue to improve to deliver for local residents. We see this as a valuable exercise to help us do the best we can for the district. The report stated that “it has become an organisation, and with a leadership, that is ambitious and outward looking. The drive, energy and passion of the Administration and Chief Executive are clear to see”.

Recommendations from the Peer Review included the following:

- The council needs to reassure itself that its governance arrangements are robust
- Refine and adapt the leadership approach in engaging local authority partners in order to ensure shared objectives can be achieved
- Determine what Overview and Scrutiny is there to do and provide the appropriate support to it
- Establish a training and development programme for elected members and ensure good induction arrangements are in place for after the election
- Cabinet continues to be cognisant of the financial challenge that exists and demonstrate the required leadership and collective responsibility for addressing it
- Take stock of the Recovery Investment Strategy and what it can deliver
- Ensure all necessary due diligence is undertaken in relation to the budget proposals and that the proposals are realisable
- Address the concerns of staff about the way they are treated by some senior leaders within the council and the Publica organisation
- Undertake more direct dialogue between the senior leadership of the council and Publica in order to address the following issues:
  - The continued appropriateness of some functions remaining with Publica
  - Where direction is set from, clarity of roles and where accountability sits
  - How increased strategic capacity is provided to support the council
  - Translating the political objectives into manageable deliverables
  - Developing a focus on organisational culture and behaviours and staff well-being

The peer review report was published for the Full Council meeting on 18 January 2023. All recommendations now form part of an action plan which is being monitored and managed by the Chief Executive, with all recommendations to be completed by 2023/24.

During 2022/2023, the Council recognised the challenge of the Cost-of-Living Crisis which has had a significant impact on the Council, its residents, and businesses. A Cost-of-Living motion was debated at Full Council on 20 July 2022, and in response a Cost-of-Living Group of cross party elected members was established. The group has focussed on actions the Council could deliver directly, deliver in partnership with other organisations, or seek to influence or promote to help the local community through the crisis.

### **3. THE GOVERNANCE ENVIRONMENT**

The key elements of the Council’s governance arrangements are outlined in the Local Code of Corporate Governance. The governance framework includes arrangements for:



- Identifying and communicating the Council’s vision of its purpose and intended outcomes for citizens and service users;
- Reviewing the Council’s vision and its implications for the Council’s governance arrangements;
- Measuring the quality of services for users, ensuring that they are delivered in accordance with the Council’s objectives and ensuring that they represent the best use of resources;
- Defining and documenting the roles and responsibilities of the executive (Cabinet), non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication;
- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;
- Reviewing and updating Financial Rules, Contract Rules, Constitution, Scheme of Delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls required to manage risks;
- Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained;
- Ensuring the Council’s financial management arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015)*;
- Undertaking the core functions of an Audit Committee, as identified in *CIPFA’s Audit Committees: Practical Guidance for Local Authorities*;
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful;
- Whistleblowing and for receiving and investigating complaints;
- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by the appropriate training;
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation; and
- Incorporating good governance arrangements in respect of partnerships, including shared services and other joint working and reflecting these in the Council’s overall governance arrangements.

The main areas of the Council’s governance framework, and the key evidence of delivery, are set out below, under the headings of the core principles and sub-principles from the *CIPFA/SOLACE “Delivering Good Governance in Local Government: Framework (2016)”*

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

- Behaving with Integrity
- Demonstrating strong commitment to ethical values
- Respecting the rule of the law

- The roles and responsibilities of Members generally and all office holders are set out in the Council’s Constitution, along with the way in which the various elements of the Council interact and complement each other. The Council’s Constitution was reviewed and presented to Council in October 2022. The Constitution is supported and underpinned by a separate Code of Conduct for Members which was updated in March 2023, and a

joint Member / Officer Protocol, which sets out guidelines as to behaviour and practical issues. This is further supported by Publica's<sup>1</sup> Business Conduct Policy which set out guidelines for staff on behavioural issues.

- Declarations of interest are made at meetings by Members and Officers, where appropriate, and are recorded in the minutes of the meeting.
- The Council has a register of member interests, maintained by the Monitoring Officer, in which all registrable interests must be entered for both the elected Member and their spouse or partner. Members are reminded on a periodic basis of the need to register their interests. Registrable interests include gifts and hospitality received by members.
- An employee declaration is completed annually by all staff. A register of gifts and hospitality is maintained by the Corporate Responsibility team and is reviewed by the Governance Group every quarter.
- The Monitoring Officer and Section 151 Officer report directly to the Chief Executive and are members of the Corporate Leadership Team.
- Internal audit reviews are designed to ensure services are complying with internal and external policies and procedures / statutory legislation. Where non-compliance is identified, this is reported to Management and to Members via the Council's Audit Committee.
- A Whistleblowing policy is in place and any reports are investigated by the Counter Fraud and Enforcement Unit.
- A Counter-Fraud and Enforcement Unit, which delivers services across Gloucestershire and in West Oxfordshire District Council is hosted by this Council to help prevent and detect fraud and corrupt practices, including misuse of power. This service reports to the Audit Committee twice a year.
- Meetings are minuted, with decisions and key actions recorded appropriately and published on the Council website.
- The Communications team ensures that communications through all of our various channels supports information / messaging and council services, and supports information to reach audiences externally and internally. A bespoke Communications Strategy was put in place to help key audiences feel 'informed, reassured, safe and inspired', and this has been evaluated and adapted throughout the cost-of-living crisis.

#### **B. Ensuring openness and comprehensive stakeholder engagement**

- Openness
  - Engaging comprehensively with institutional stakeholders
  - Engaging with individual citizens and service users effectively
- The council is committed to listening to the views of local people to help ensure that it is able to provide effective services in line with their needs
  - Consultation and community engagement is seen as an integral part of service planning, budget setting and decision-making

<sup>1</sup> Publica Group (Support) Limited is a local authority owned company, jointly owned by Cheltenham Borough Council and Cotswold, Forest of Dean and West Oxfordshire District Councils. Over 95% of staff formerly employed by Cotswold District Council are now employed by Publica which delivers services on behalf of the Council.

- Annual accounts are published in a timely manner to help communicate the Council's financial position and performance.
- The Council's Corporate Plan 2020-2024 was refreshed in May 2022 and is available on the Council's website.
- All Committee, Cabinet and Council reports clearly outline their purpose, so the community can understand what is trying to be achieved. Reports also address financial, legal, equalities, risk and climate change implications to aid understanding of the potential impact of their recommendations.
- The roles and responsibilities of the executive (Cabinet), non-executive, scrutiny and officer functions are defined in the Council's Constitution
- A Scheme of Delegation for Planning officers is included within the Constitution. The Council approved a revised and comprehensive Scheme of Delegation for officers on 14 July 2021.
- The Council has a planning protocol which sets out guidance for both Officers and Councillors when determining Planning applications, specifically those which come before the Planning and Licensing Committee for decision. The protocol sets out the conditions for Members to refer applications within the District to the Planning and Licensing Committee. Referrals are reviewed by a Review Panel which considers which applications should proceed to the Committee. The Minutes of the Review Panel are circulated to all Members.
- Communication channels with staff include: one-to-one meetings between an officer and their supervisor, a weekly update email to all staff from the Publica Directors (Keeping you connected) and an online portal which contains informal blogs, policies, and further detail on subjects highlighted in the Keeping you connected update. Our partner, Publica achieved Investors in People (IiP) accreditation in 2022.
- A Customer Feedback form is available publicly for handling of comments, complaints and compliments. The Council's website includes different ways for customers to give feedback or access services. A customer satisfaction survey was carried out throughout some of the year, satisfaction for services delivered face to face and telephone were high.
- The Council maintains clear channels of communication with all sections of the Community and other Stakeholders.
- Members of the public may ask questions at all meetings held in public. We have changed our approach as part of the Council Constitution in 2022/23 to make it even more transparent.
- A report is produced quarterly for the Overview and Scrutiny Committee and Cabinet regarding the service and financial performance of the Council and achievements towards its aims and objectives.
- The Council publishes transparency data on its website which includes supplier payments, senior management structure charts and the Annual Pay Policy Statement. Where data is not available in the published data sets, instructions are available on how to make a Freedom of Information request and the procedure that will be followed to answer the request.

### **C. Defining outcomes in terms of sustainable economic, social, and environmental benefits**

- Defining outcomes

- Sustainable economic, social and environmental benefits

- The Council's vision is contained within the Corporate Strategy, 2020 - 2024 which sets out how we will achieve our aims and deliver our priorities. The strategy was first developed in 2020 and this has since been updated in 2022 as a number of projects have progressed and the local and national picture has developed.
- Publica and Ubico deliver the majority of the Council's services, and both produce an annual Business Plan which is approved by the Council.
- An annual business planning process is also conducted by Publica, which is informed by the corporate priorities, legislation and government guidance.
- Key tasks identified in the business planning process feed into individual work plans/appraisals.
- The Corporate Strategy deals with the Council's approach to environment and sustainability issues. Detailed proposals arising from the Corporate Strategy are Individually assessed as they are developed and are included within decision making reports to Members.
- The Council has declared a Climate Emergency and Ecological Emergency and has a separate strategy and action plan on how these will be addressed within the District.
- The financial implications of delivering against the Council's priorities are included within the Council's Medium Term Financial Strategy, revenue budgets and capital programme. These key financial documents are updated annually in advance of the forthcoming financial year.
- In September 2020 the Council approved its first Recovery Investment Strategy to support the key priorities in the Corporate Strategy 2020- 2024. Since the Council approved the refreshed Strategy in July 2022 a number of external, economic factors made borrowing and investment decisions more complex given both the level of uncertainty and the impact of both higher inflation and interest rates. As such, at the Cabinet Meeting in November 2022, a decision was made to rescind the Strategy, to allow the Council to consider the broader financial position and develop revenue and capital savings and transformation proposals that address the indicative funding gap.

#### **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

- Determining interventions
  - Planning interventions
  - Optimising achievement of intended outcomes
- The Council has, with three other Councils, created a Teckal company, Publica Group (Support) Ltd (Publica), to deliver more efficient and improved services. Where possible, processes have/are being aligned to ensure consistency across the partner Councils. However, the Councils have retained decision making powers over service policies, outcomes and standards. Publica is one of the Council's most significant contractors. In recognition of this and the controlling interest the Council must have as a Teckal Company, the Council will monitor the contractor's performance by:
    - Considering Publica's Annual Report at Council;
    - Considering Publica's draft Business Plan annually at the Overview and Scrutiny Committee and Cabinet in February/March each year;

- Requiring representatives from Publica to attend Overview & Scrutiny Committee to support discussion on quarterly performance reports;
  - Receiving monthly “Keeping You Connected” updates by email from Publica to all Members;
  - Inviting Publica senior officers to attend monthly informal Cabinet meetings to discuss: progress against the Business Plan; identify any key risks and challenges outside of the company or Council control; budget monitoring and service delivery matters; progress against Corporate Plan
  - Creation of fortnightly CDC retained officers/Publica Executives meetings where performance and progress against Corporate Plan priorities is a key agenda item.
  - Develop informal mechanisms to share best practice, learning and Councillor development.
- In addition to the creation of Publica, the Council continues to secure savings through improved use of its assets and investments. In March 2023, a Cabinet Transform Working Group was formed to review potential saving proposals across all services. This will be further developed in 2023/24.
  - The Council will conduct a review of future service delivery options to make sure the solutions needed for the Council to achieve financial stability can be achieved, given the Medium Term Financial Strategy (MTFS) shortfall over the years ahead. The review will examine the priorities for service delivery options and transformation.
  - The Council has processes in place to identify and respond to external changes, for example: changes to legislation and regulation, emerging risks and opportunities. Corporate processes such as risk management, performance management processes, budget monitoring and other management processes are designed to capture and incorporate these external factors and to enable the Council to respond appropriately.
  - The Strategic risk register is reviewed regularly by the Local Leadership Team and reported to the Audit Committee.
  - Projects and services maintain their own risk registers and elevate any high/red risks to the Local Leadership Team and Publica as appropriate for consideration. A Risk Group reviews risk registers each quarter, escalating any emerging risks to the strategic register.
  - Key Performance Indicators are identified and are reported quarterly to both Cabinet and Overview and Scrutiny.
  - Budgets are prepared annually in accordance with objectives, strategies and the Medium Term Financial Strategy, following consultation with customers, stakeholders and officers.
  - The Medium Term Financial Strategy is a live document and can be reviewed, updated and reported as necessary, to respond to the changing environment.
  - Continue to analyse any legacy impact from the pandemic and the ongoing cost of living crisis and understand how they have impacted our strategic priorities. Understanding and managing a variety of impacts, including financial, service delivery, and health and wellbeing. The Council will continue to work with residents and local businesses to review and respond to their changing needs and to help them protect themselves and others, as well as recover from the health and economic costs arising from the cost-of-living crisis.

### **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

- Developing the entity's capacity
  - Developing the capability of the entity's leadership and other individuals
- One of the reasons behind the creation of Publica was to increase service delivery capacity across the four partner councils by sharing common processes and procedures and eliminating (as far as possible) single points of failure. By working in partnership, the Councils are able to share the cost of commissioning bespoke and specialist advice supporting the Council's retained officers' capacity to lead the council and develop ideas, strategies and political engagement.
  - The move to a provision of services via wholly owned companies is providing the opportunity to engage with a number of Non-Executive Directors that bring a wealth of experience from a range of different economic sectors. Councillors also have a range of experience which is a valuable asset to the Council.
  - There is a Scheme of Delegation at Member level covering the Council, Cabinet, individual Cabinet Members and other committees. Similarly, there is a scheme of delegation for officer decisions at Executive, Non-Executive and Regulatory meetings. These are reviewed and revised as structures at Council and Officer level change.
  - Financial rules are in place and are reviewed and revised as required.
  - Induction programmes are available to new employees and Members alike. Training is also provided for both Members and Officers on an on-going basis as appropriate and necessary. Members on certain Committees (e.g. Planning and Licensing) are required to undertake training before attending the Committee meetings.
  - Officers undertake regular 121 meetings with their line manager. As part of these 121 meetings, Offices discuss work plans/tasks and any training requirements associated with the successful delivery of the work plan. Officers are encouraged to complete Continuing Professional Development as relevant to their professional qualifications and service areas hold budgets to ensure that training can be undertaken to maintain skills and knowledge.
  - The Chief Executive, the Section 151 Officer, the Monitoring Officer and the Leader of the Council have clear roles and responsibilities, and these are contained within the Constitution along with the Member/Officer Protocol.
  - Training is also provided for officers on an on-going basis as appropriate and necessary.
  - A Leadership Development Programme has been established and is available to Managers at all levels within Publica and the Council.
  - In response to the Peer Review, during 2022/23, more focus has been given to Member Training and Development including the creation of a cross party Members Development Strategic Steering Group (MDSSG) to oversee the learning and development of Councillors.

### **F. Managing risks and performance through robust internal control and strong public financial management**

- Managing risk
- Managing performance
- Robust internal control

- Managing data
- Strong public financial management

- A Risk Management Group has been established to undertake quarterly reviews of risk registers, escalating any emerging risks to a strategic level. The Local Leadership Team reviews the Strategic Risk Register on a quarterly basis. The Strategic Risk Register is reported to the Audit Committee on a regular basis.
- Risks are identified when undertaking Internal Audit reviews and reported when necessary.
- Performance Management measures the quality of service for users to ensure services are delivered in accordance with the Council's objectives and represent best use of resources.
- Performance is measured on a regular basis and reported to the Overview and Scrutiny Committee and Cabinet.
- Minutes of meetings are published and highlight the challenge made by Members to Officers and Cabinet Members.
- There is improved oversight of key projects and associated risks.
- The Internal Audit service is provided by SWAP Internal Audit Services and is run in partnership with other local authorities. The internal audit team provides the internal audit service to both the Council and Publica Group (Support) Ltd which strengthens the Council's oversight of Publica as one of its most significant contractors.
- A risk-based Audit Plan is drafted annually following consultation with Officers, Members and the S151 Officer. The Audit Plan is approved at the Audit Committee prior to the financial year.
- Audit reports, once completed are discussed with the service manager. Executive summaries, including findings, and progress on the Annual Plan are reported to the Audit Committee, on a quarterly basis.
- Recommendations made in audit reports are followed up 6 months after the completion of the audit and findings reported to the Audit Committee.
- The Audit Committee's Terms of Reference are contained within the Constitution, Members have experience of a scrutiny role and training is provided when appropriate.
- A Counter Fraud Unit is hosted by this Council and supports all the Gloucestershire Local Authorities, West Oxfordshire District Council and other third parties. Where investigations identify possible improvements to the internal control framework the Counter Fraud Unit will liaise with the Internal Audit team to ensure the improvements are followed up and implemented by Management.
- An ICT Audit and Compliance Manager performs the role as the Council's Data Protection Officer and therefore has responsibility for Data Protection policies and ensuring that officers are informed and appropriately trained.
- The Council is part of the Gloucestershire Information Sharing Partnership. This enables data to be shared when necessary.
- Audit reviews ensure data is held securely whether electronically or hard-copy.
- The MTFS is reviewed and updated on a regular basis to ensure the Section 151 Officer, Chief Executive and Members are aware of the financial standing of the Council.

### **G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

- **Implementing good practice in transparency**
- **Implementing good practices in reporting**
- **Assurance and effective accountability**

- Transparency data is published on the Council's website.
- The Council's Statement of Accounts is produced and published annually in accordance with statutory legislation. Aligned with this is the production of the Annual Governance Statement which identifies how the Council has met its governance reporting obligations
- External Audit recommendations are reported to Audit Committee, following the completion of their annual audit process, follow-ups of recommendations are also reported
- Internal Audit processes ensure compliance with Public Sector Internal Auditing Standards. Internal Audit recommendations are followed-up and reported to the Audit Committee, further follow-up is planned if recommendations have not been actioned in full.
- The Council has a process for the receipt and processing of freedom of information requests made under the Freedom of Information Act.
- There is a presumption that all reports and the associated annexes to be considered in public meetings will be published. The Council's Legal Officer is consulted in circumstances where reports or annexes contain information which is considered to be exempt from publication.

## **4. REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers, the annual opinion from the Head of Internal Audit, the officer Corporate Governance Group and comments made by the external auditors, other review agencies and inspectorates.

### **The Council's process for maintaining and reviewing the effectiveness of the governance framework has included the following:**

- Senior Managers within Publica and the Council complete an Annual Assurance Statement at the end of the financial year. These governance declarations provide appropriate management assurance that key elements of the system of internal control are in place and are working effectively and help to identify areas for improvement.
- The Council's Leadership Team (including the Chief Executive, Section 151 Officer, the Monitoring Officer and the Publica Locality Assistant Directors) review the Corporate Risk Register on a quarterly basis. Service and Project Risk Registers are maintained by the relevant Publica Group or Business Manager.
- A Governance Group meets quarterly to discuss and action matters such as staff declarations of interests, gifts and hospitality, action taken on audit recommendations, cyber security, the register of data protection breaches and counter fraud updates.
- A review of Public Interest Reports and other key reports is completed to identify any potential learning and organisational risks.



- The SWAP Assistant Director (Head of Internal Audit) provides the Audit Committee, as the Committee charged with governance, with an Annual Opinion on the control environment of the Council, which includes its governance arrangements.
- Investigation of, and decisions on, allegations of failure to comply with Members Code of Conduct are considered and determined by the Monitoring Officer and an Independent Person(s). The Audit Committee oversees the framework of the Code of Conduct for Members on an annual basis.
- Induction processes are carried out for newly elected Members and appointed officers.
- The Section 151 Officer ensures training and awareness sessions are carried out for the Audit Committee periodically.
- The External Auditors (Grant Thornton) present progress reports to the Audit Committee.
- The External Auditor's Annual Report and follow-up of management responses to issues raised in the Report or other reports are overseen by the Audit Committee.
- Quarterly performance reports, including the budget position, are presented to the Overview and Scrutiny Committee and Cabinet, demonstrating performance management against agreed performance indicators and budgets.
- The Audit Committee reviews the Annual Governance Statement.
- The Audit Committee reviews the Annual Statement of Accounts, the Capital Strategy, Investment Strategy, Treasury Management Strategy and reports from both Internal Audit (SWAP) and External Audit (Grant Thornton), including quarterly progress reports.
- Council approves the annual budget and approves the Capital Strategy, Investment Strategy and Treasury Management Strategy, following recommendations from the Audit Committee.
- Internal Audit monitors the quality and effectiveness of systems of internal control. Audit reports include an opinion that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports including recommendations for improvement are detailed in an action plan agreed with the management.
- The Annual Internal Audit Opinion for 2022/23, in respect of the areas reviewed during the year, was "low reasonable". Areas identified for improvement included:
  - Administration of procurement cards. Actions have been agreed.
  - Recommendations for improvements in Revenues and Benefits, Climate Change, Treasury Management and Business Continuity
  - Recommendations for further improvements to planning validation
- The Council's Financial Rules and Contract Rules are kept under review and revised periodically.
- Other explicit review/assurance mechanisms, such as the Annual Report from the Local Government Ombudsman and reports from SWAP or Grant Thornton are also reviewed.

## 5. REVIEW OF GOVERNANCE ACTION PLAN FOR 2022/2023

When preparing its 2021/2022 statement, the Council identified a number of areas which required focus and attention. Progress by the end of March 2023 is detailed in the table below:

No.	Key Area of Focus	Planned Actions	Progress
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1.	Raising awareness of the contract procedure rules	<ul style="list-style-type: none"> <li>• New Contract and Procurement Strategy to be approved and published to all officers, linking to the Contract Procedure Rules.</li> <li>• Planned audit of contract and procurement by SWAP will cover officer awareness of the contract procedure rules.</li> </ul>	The new Contract and Procurement Strategy is going to Cabinet for approval on 17/07/23. This was endorsed by the Audit and Governance Committee in April.
2.	A training programme for Members to be developed.	<ul style="list-style-type: none"> <li>• A training programme is to be developed in conjunction with West Oxfordshire and the Forest of Dean District Councils.</li> </ul>	Training Programme for Members has been developed and discussed at Council as part of Peer Review Action Plan. Cross party Members Development Steering Group supported by officers in place. Training programme delivered from May 2023
3.	Budget management	<ul style="list-style-type: none"> <li>• Review of approvers on 'Business World' to ensure only the approved budget holder (or line manager) is able to approve spending.</li> </ul>	This is undertaken annually. s151 Officer will review appropriateness of the current controls.
4.	Risk management training	<ul style="list-style-type: none"> <li>• Training package to be finalised and rolled out.</li> <li>• Full training package and other material covering the risk and opportunity guidance to be published on the Publica portal.</li> <li>• Planned audit of risk and opportunity management by SWAP will cover officer awareness of guidance.</li> </ul>	There is a Google classroom training application on risk management. This will be reviewed and updated in-line with any changes made to the Risk management process.
5.	Compliance with audit recommendations	<ul style="list-style-type: none"> <li>• Improved reporting of outstanding audit recommendations to Local Management Team, Audit Committee and Publica's Audit Risk and Compliance Committee.</li> </ul>	<p>Outstanding recommendations are a regular feature on the local management team agenda.</p> <p>Cabinet have agreed to the Chair of Audit's recommendation that officers with actions that are outstanding for more than six months should report to the Audit Committee.</p> <p>Standing item on LMT agenda with outstanding actions reviewed by SWAP Audit and s151 on a monthly basis.</p>

6.	Business Continuity Plans, development and testing	<ul style="list-style-type: none"> <li>● Completion of Business Impact Analysis.</li> <li>● Revised strategic and tactical plans to be developed.</li> <li>● Review of all operational plans prior to a complete desktop exercise.</li> <li>● New programme and plans to be approved.</li> </ul>	<p>Business Impact Analysis has been revised and further developed.</p> <p>All business areas have reviewed and updated their Business Continuity Plans (BCP) in March 2023 and now include power outage.</p> <p>A business continuity exercise was carried out in October 2022 and learning / improvements were implemented.</p> <p>Work is being undertaken with GCC to identify the key BCP risks and to test / challenge these. This is planned for circa Sept 2023.</p>
7.	Executive and Scrutiny Protocol	<ul style="list-style-type: none"> <li>● Development and adoption of an Executive and Scrutiny Protocol</li> </ul>	Completed
<b>Actions brought forward from 2021/22</b>			
8	Procurement and contract management.	Ensure all contract conditions are being monitored and fulfilled.	Mandatory Commissioning and Procurement Training has been rolled out to service areas. This will be refreshed once the Procurement and Contract Management Strategy has been approved by Cabinet in July 2023/24. It should be noted that Publica provided Procurement and Contract Management training to specific Business areas such as Planning in February this year.
9	Operational Risks.	Governance Group to carry out a quarterly review of operational risk registers to ensure that they are being appropriately populated and that emerging high level risks are being escalated to strategic/corporate register	Risk Management arrangements for the Council and Publica have been discussed as part of the quarterly Risk Management meeting. The s151 Officer is updating the Strategic Risk Register and will update the committee once complete.
10	Project and programme management	High level project risks to be escalated to Strategic/Corporate register.	Risk Management arrangements in relation to project and programme management for the Council and Publica have been discussed as part of the quarterly Risk Management meeting and at the newly established Local Project Board. The s151 Officer is updating the

			Strategic Risk Register and will include reference to aligning project risk reporting update to the committee once complete.
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The Annual Internal Audit Opinion, as drafted by the SWAP Assistant Director (Head of Internal Audit), lists pieces of audit work being conducted during 2022/23, which includes consultancy and advisory services. assurance reviews were completed during the year.

All recommendations made are followed up by the Audit Team. The team has not raised any additional concerns over the delay or non-implementation of recommendations.

## 6. GOVERNANCE ACTION PLAN FOR 2023/2024

In preparing this statement and reviewing the effectiveness of the governance arrangements a number of areas have been identified where the Council needs to focus attention and improve arrangements over the next financial year. These areas of work are planned to strengthen the control framework and are set out in the table below.

No.	Key Area of Focus	Planned Actions
1.	Raising awareness of the contract procedure rules	<ul style="list-style-type: none"> <li>The new Contract and Procurement Strategy will be approved July 2023. A priority this year will be to rollout Management Training to ensure this new strategy is understood and embedded.</li> </ul>
2.	Financial Management	<ul style="list-style-type: none"> <li>To review the financial procedure rules and financial processes to be completed in 2023/24 against the CIPFA Financial Management Code.</li> </ul>
3.	Risk Management	<ul style="list-style-type: none"> <li>To rollout the Risk Management Training to all relevant officers (Launched in May 2023)</li> <li>To build risk management into the new Leadership and Development Training</li> <li>To ensure the existing risk policy and process enables effective reporting, escalation and mitigation.</li> </ul>
4.	Emergency Planning	<ul style="list-style-type: none"> <li>To further increase community resilience in line with the new Resilience Framework, published in December 2022.</li> <li>To further develop our Emergency Response Framework by putting in place a Locality Response Team for Cotswold District Council who are trained and able to respond in the event of a significant local incident.</li> <li>To ensure Statutory Officers are trained and competent in their role as Gold (Strategic) Commander in the event of a significant local incident, and relevant officers are trained in Silver (tactical) and Bronze (operational response).</li> <li>To ensure the Safety Advisory Group considers any implications from Martyn's Law when considering planned events.</li> </ul>
5.	Portal Content Management	<ul style="list-style-type: none"> <li>To review the Publica Portal content to ensure it is up to date, and includes the latest versions of all policies and procedures</li> </ul>
6.	Business Continuity	<ul style="list-style-type: none"> <li>To further develop Business Continuity Processes to ensure they are robust and fit for purpose</li> <li>To test the business critical Business Continuity Plans in 2023/24</li> </ul>
7	New HR Policies	<ul style="list-style-type: none"> <li>Rollout a new and revised suite of HR policies in 23/24</li> <li>Ensure Managers are trained in the use of the new policies</li> </ul>
8	LGA Peer Review and Support	Complete the action plan from the October 2022 LGA Peer Review
9	Review of service delivery model	Conduct a review of future service delivery options to make sure the solutions needed for the council to achieve financial stability can be achieved, given the MTFs shortfall over the years ahead. This review will examine the priorities for service delivery options and transformation.

10	Internal Audit Recommendations	To address the recommendations made by Internal Audit and subsequently improve the Audit Opinion for 23/24.
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## 7. APPROVAL OF LEADER AND HEAD OF PAID SERVICE

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

**Signed on behalf of Cotswold District Council:**

**Joe Harris**  
Leader of the Council

**Robert Weaver**  
Chief Executive

**Date:**

**Date:**

(END)



**COTSWOLD**  
DISTRICT COUNCIL

Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>AUDIT AND GOVERNANCE COMMITTEE– 25 JULY 2023</b>
Subject	<b>TREASURY MANAGEMENT OUTTURN REPORT 2022/23</b>
Wards affected	N/A
Accountable member	Cllr Mike Every, Deputy Leader and Cabinet Member for Finance Email: mike.every@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and S151 Officer Email: David.stanley@cotswold.gov.uk
Report authors	Sian Hannam, Treasury Accountant Email: sian.hannam@publicagroup.uk Michelle Burge, Chief Accountant Email: michelle.burge@publicagroup.uk
Summary/Purpose	To receive and discuss details of the Council’s Treasury management performance for the period 01 April 2022 to 31 March 2023.
Annexes	Annex A – Economic Background
Recommendation(s)	<i>That Audit and Governance Committee resolves to:</i>  <i>1. Consider the Council’s Treasury Management performance for the period 1 April 2022 to 31 March 2023.</i> <i>2. Agree any comments to be passed to full Council when considering this item.</i>
Corporate priorities	The Council’s Treasury Management Strategy underpins all of the Council Priorities and is relevant to the Council principle of “Value for money – we will use the council’s resources wisely but will invest in the fabric and future of the district.”
Key Decision	NO
Exempt	NO



Consultees/ Consultation	Arlingclose Limited – Council’s treasury advisors
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## 1. TREASURY MANAGEMENT - INTRODUCTION

- 1.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council’s low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
- 1.2 The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).
- 1.3 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2022/23. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on investment management and long-term capital financing. They advise on investment trends, developments, and opportunities consistent with the Council’s Treasury Management Strategy.
- 1.4 The Council’s treasury management advisors have provided commentary on the economic background that prevailed during 2022/23. This commentary is provided within Annex A.

## 2. EXECUTIVE SUMMARY

- 2.1 This report covers the Treasury Management activity and performance of Cotswold District Council for the period 01 April 2022 to 31 March 2023.
- 2.2 During the year the Council operated within the treasury limits and prudential indicators as set out in the Treasury Management Strategy approved by Council on the 16 February 2022. Investment interest for 2022/23 has produced a net surplus of £0.511m against the original budget set in February 2022 of £0.582m largely due to increases in interest rates throughout the year and higher levels of surplus cash balances available to invest than budgeted.





- 2.3** The Council’s strategy has been to diversify investments into Pooled Funds in order to reduce risk and increase returns. Pooled Funds have maintained strong returns of dividends and returned over 4.16% (£0.449m) against the £12.5m invested in this area (further details provided in section 4.2) This compares to returns achieved of 1.88% for cash invested in money market funds and call accounts and 2.3% where cash is invested with Government
- 2.4** The capital values of the Pooled Funds decreased by £1,028,337 from £12.557m to £11.528 during 2022/23. Further detail provided in paragraph 6.2 to 6.7.
- 2.5** The Council holds a £0.500m loan administered by Abundance Investments Limited for the purpose of Community Municipal Investments. The Council’s first Community Municipal Investment (CMI), named ‘Cotswold Climate Investment’ (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors.
- 2.6** Due to the rescinding of the Council’s Recovery Investment Strategy and slippage in capital expenditure, the Council has continued to have no requirement to borrow or hold any further external debt as at 31 March 2023.
- 2.7** The treasury management position as at 31 March 2023 is set out in table I below together with the year-on-year movements.

**Table I: Treasury Management Summary**

	<b>31/3/2022 Actual £m</b>	<b>2022/23 Movement £m</b>	<b>31/3/2023 Balance £m</b>	<b>31/3/2023 Rate %</b>
Short-term borrowing	-	0.451	0.451	2.20
<b>Total borrowing</b>	<b>-</b>	<b>0.451</b>	<b>0.451</b>	<b>2.20</b>
Long-term investments	12.551	(1.029)	11.522	4.16
Short-term investments	5.571	(1.210)	4.361	2.30
Cash and cash equivalents	14.795	(2.712)	12.083	1.88
<b>Total investments</b>	<b>32.917</b>	<b>(4.950)</b>	<b>27.965</b>	<b>2.68</b>
<b>Net Investments</b>	<b>32.917</b>	<b>(5.402)</b>	<b>27.515</b>	

### **3. BACKGROUND**

- 3.1** In February 2011, the Council adopted the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice (the CIPFA Code). The CIPFA Code requires the Council to approve reports on treasury management activities at the end of the first half of the financial year and at the end of the financial year.



**3.2** The Council's Treasury Management Strategy for 2022/23 was approved at the Council meeting on the 16 February 2022. The Council has invested substantial sums of money and is therefore exposed to financial risks including changes in capital value of funds, the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are central to the Council's treasury management strategy.

#### **4. BORROWING**

**4.1** Local authorities can borrow from the Public Works Loan Board (PWLB) provided they can confirm they are not to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the SI51 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to re-finance existing loans or externalise internal borrowing.

**4.2** Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing debt and treasury management.

**4.3** Competitive market alternatives are available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

**4.4** The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to fully access the PWLB.

**4.5** The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors. As at the 31 March 2023 the Council therefore held a £0.451m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments at a rate of 2.2%.

**4.6** The Council has no further borrowing considerations. There are plans to borrow in the future to fund the Capital Programme. Any borrowing undertaken will be subject to approval by either Cabinet or Council as appropriate.

**4.7** In order to determine whether the Council needs to borrow, the underlying need to borrow needs to be compared against the Council's internal borrowing capacity. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) which is total capital expenditure to be funded by borrowing less any revenue provision made for the Minimum Revenue Provision.



- 4.8 Whilst there may be an underlying need to borrow, the Council may not actually undertake external borrowing and may instead use its internal cash balances to fund the borrowing requirement which is known as “internal borrowing.”
- 4.9 For Cotswold District Council, there is a small underlying need to borrow of £0.020m and significant internal borrowing capacity as set out in Table 2 below:

Table 2: Balance Sheet Summary

	31/3/22 Actual £m	2022/23 Movement £m	31/3/23 Actual £m
General Fund CFR	0.016	0.004	0.020
Less: External Borrowing	0	-0.451	-0.451
Less: Usable Reserves	-25.677	2.819	-22.858
Less: Working Capital	-7.262	2.586	-4.676
<b>Available for investment or internal borrowing</b>	<b>-32.923</b>	<b>4.958</b>	<b>-27.965</b>

\*A positive figure would indicate a need to externally borrow

- 4.10 If interest rates were to rise by 1%, then investment income would average 3.68%, whilst borrowing costs (based on 20-year PWLB Loan) would be 5.62%. For every £1m borrowed the cost of carry would cost an additional £19,400 per annum.

## 5. INVESTMENT PERFORMANCE

- 5.1 The Council invested funds representing income received in advance of expenditure plus balances and reserves held. During 2022/23, the Authority’s investment balance ranged between £26.877 and £54.947 million due to timing differences between income and expenditure. The investment position is shown in table 3 below:



Table 3: Treasury Investment Position

	<b>31/3/20 22 Actual £m</b>	<b>2022/23 Movement £m</b>	<b>31/3/2023 Balance £m</b>	<b>31/3/2023 Rate %</b>
Bank of England DMADF	5.50	(1.217)	4.283	2.24
Money Market Funds/Call Accounts	14.795	(2.712)	12.083	0.81
Real Estate Investment Trust (REIT)	1.030	(0.030)	1.000	2.83
Cash Plus Fund	1.072	0.024	1.096	2.26
Pooled Funds (1)	10.520	(1.017)	9.503	4.16
<b>Net Investments</b>	<b>32.917</b>	<b>(4.952)</b>	<b>27.965</b>	

(1) See breakdown at Table 4 and 5 below.

- 5.2** 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 investments before seeking the highest rate of return, or yield. 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.
- 5.3** Higher levels of cash were held at the start of the financial year due to the impact of the payment of the Government's Covid-19 grants to businesses on cash flow, these balances and diversified over several counterparties and Money Market Funds to manage credit and liquidity risk.
- 5.4** The investment income budget for 2022/23 is £0.510m, as approved in February 2022, investment income of £1.082m was achieved. Increases in the Base Rate have fed through to



higher short-term deposit and MMF interest rates. These have increased from 1.92% at the start of the year to over 3.8% by March. There has been a small increase in Pooled Fund interest, further details are provided in section 6 of this report.

- 5.5** The year-end investment position analysed between investment types and the year-on-year change in show in table 4 below.

Table 4: Investment Position (Treasury Investments)

	<b>31/3/2022 Actual £m</b>	<b>2022/23 Movement £m</b>	<b>31/3/2023 Balance £m</b>	<b>31/3/2023 Rate %</b>
Banks & building societies (unsecured)	6.093	(2.989)	3.104	0.81
Government (incl. local authorities)	5.500	(1.217)	4.283	2.24
Money Market Funds	8.702	0.277	8.979	2.15
Other Pooled Funds				
- <i>Federated Cash plus fund</i>	1.072	0.024	1.096	2.26
- <i>CCLA Property Fund</i>	2.706	(0.441)	2.265	3.88
- <i>CCLA Diversified Multi Asset Income Fund</i>	1.036	(0.090)	0.946	2.85
- <i>Schroders Equity Income Fund</i>	0.859	(0.047)	0.812	6.04
- <i>M&amp;G UK Strategic Bond Fund</i>	1.938	(0.127)	1.811	4.59
- <i>Investec Multi asset income fund</i>	1.926	(0.105)	1.821	3.85
- <i>Columbia Threadneedle Equity Income Fund</i>	2.055	(0.207)	1.848	3.32
Fundamentum - Real Estate Investment Trust	1.030	(0.030)	1.000	2.83
<b>Total investments</b>	<b>32.917</b>	<b>(4.951)</b>	<b>27.965</b>	<b>2.68</b>



## 6. EXTERNALLY MANAGED POOLED FUNDS

- 6.1 A key aspect of the Council's current investment strategy is to invest into pooled funds in order to increase investment returns. These funds do introduce higher levels of risk as the capital value is not protected and the value of the funds can go up and down. The funds can be drawn down at relatively short notice, but consideration would need to be given as to whether drawing them down would crystallise a capital loss. The funds themselves are invested in different investment classes and therefore risk within the pooled fund is diversified.
- 6.2 Of the Council's investments, £10.5m are held in externally managed strategic pooled cash, bond, equity, multi-asset and property funds with a further £1m held in a Cash Plus fund and £1m held in a Housing Real Estate Investment Trust (REIT) where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £0.449m (4.16%) during 22/23 and the capital values on these funds decreased by £1.028m in the year to 31 March 2023 due to external economic factors as outlined in Annex A including political instability, global economic uncertainty and market confidence. Members are reminded that Pooled Funds are held for the longer-term and the capital value will fluctuate over each financial year.
- 6.3 The decrease in value is treated as an unrealised capital loss i.e., the loss is not recognised as any gain or loss will only be recognised at the point funds are sold. The Council did not make any further contributions to these funds during 2022/23 with the amount invested remaining at £12.5m.
- 6.4 The change in the Authority's funds' capital values and income earned over the 12-month period is shown in Table 5.



Table 5: Pooled Funds, Cash Plus and REIT

Fund Manager	Investment	1st April Fund Value	31 <sup>st</sup> March Fund Value	Dividends in 2022/23	2022/23 Gain/(Loss)	Gain/(Loss) to Initial Principal	% Return Capital & Dividend 2022/23
	£	£	£	£	£	£	%
CCLA Property	2,500,000	2,683,429	2,241,061	97,024	(442,368)	(258,939)	(12.87)
Schroders Income Maximiser (E)	1,000,000	847,022	801,858	60,367	(45,164)	(198,142)	1.79
M&G UK Income (E)	2,000,000	1,920,825	1,793,403	91,839	(127,422)	(206,597)	(1.85)
Investec Diversified Income (M)	2,000,000	1,921,396	1,814,069	77,045	(107,327)	(185,931)	(1.58)
Threadneedle Bond (B)	2,000,000	2,050,746	1,842,079	66,323	(208,667)	(157,921)	(6.94)
CCLA Diversified Income (M)	1,000,000	1,031,275	939,659	28,399	(91,616)	(60,341)	(6.13)
Federated Cash + (C)	1,000,000	1,071,894	1,096,121	-	24,227	96,121	2.26
Fundamentum Housing REIT	1,000,000	1,030,000	1,000,000	28,250	(30,000)	-	(0.17)
<b>Total current funds</b>	<b>12,500,000</b>	<b>12,556,587</b>	<b>11,528,250</b>	<b>449,247</b>	<b>(1,028,337)</b>	<b>(971,750)</b>	<b>(8.19)</b>

Key E- Equity, M-Multi asset, B- Bond, C-Cash

- 6.5** Pooled funds capital value fell significantly in the financial year, by 8.1%. This period has been a very difficult environment for bonds engendered by global central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. The sell-off in gilts, other sovereign bonds and corporate bonds with a risk in gilt/bond yields (i.e., a fall in price) was reflected in the Council's bond and multi-asset income funds.
- 6.6** Significant financial market volatility and uncertainty remain due to stagflation fears, little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 3 years, yet to be fully resolved.
- 6.7** As highlighted above, the nature of these funds is that values can fluctuate from one year to another. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are monitored and discussed with Arlingclose on a regular basis. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.



**6.8** With the expectation of improved investment income returns during the 2023/24 financial year, it was recommended to Cabinet in July 2023 that any additional investment income above the budgeted level is transferred to a new earmarked reserve (“Treasury Management Risk”) to manage higher borrowing costs in the short-term and to mitigate potential changes to the accounting treatment of gains and losses on pooled funds from March 2025.

## **7. INVESTMENT RETURNS**

**7.1** The outturn for investment income received in 2022/23 was £1.082m which equates to a 2.63% return (21/22 – 1.18%) on an average investment portfolio of £41.097 million against a budgeted £0.510m an average investment portfolio of £26.98 million. Net loans and investments made a surplus of £0.513m, for the 2022/23 financial year. See table 6 for details.

Table 6: Investment income and interest payable versus budget

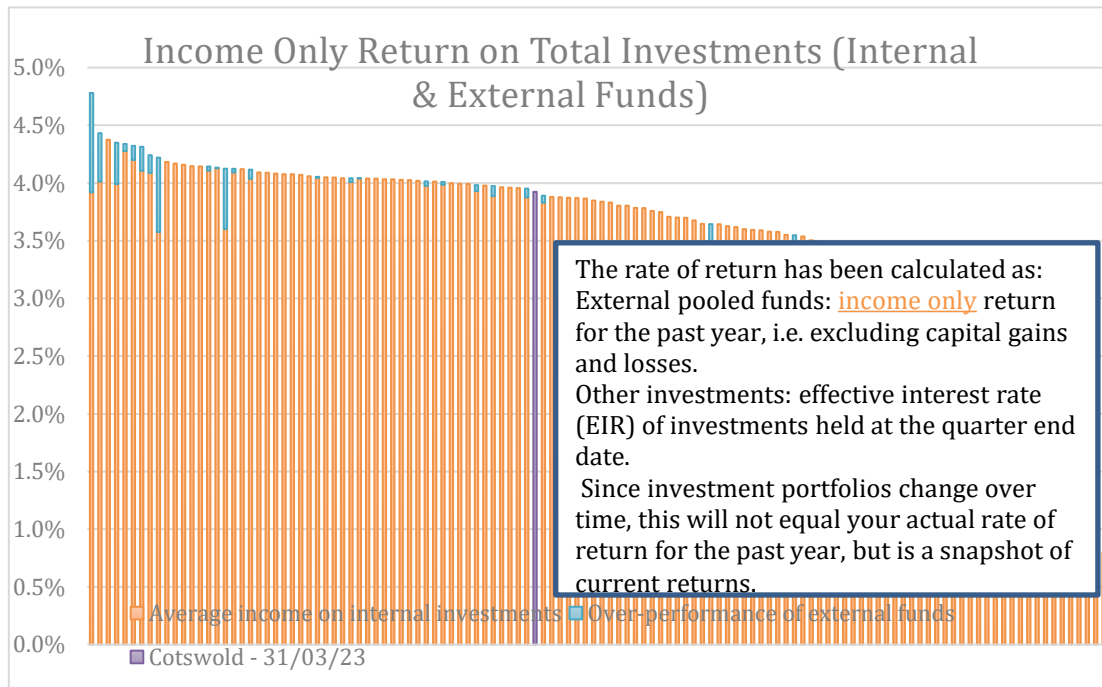
<b>Investment and Loan Income/Interest Payable</b>	<b>2022/23 Budget £m</b>	<b>2022/23 Actual £m</b>	<b>Variance Surplus/ (Deficit) £m</b>
Community Municipal Borrowing (Interest payable)	(0.007)	(0.006)	0.001
Cottsway Loan*	0.060	-	(0.060)
Long Term Loans	0.012	0.011	(0.001)
Pooled Funds	0.400	0.421	0.021
Housing REIT	0.026	0.028	0.003
Short term	-	0.429	0.429
Call/MMF's	0.084	0.204	0.120
<b>NET Income</b>	<b>0.574</b>	<b>1,087</b>	<b>0.513</b>

\*Drawdown of this loan planned for 2023/24

**7.2** Table 7 overleaf shows that as at 31 March 2023, Cotswold District Council (purple bar) achieved the 54th highest average rate on investments from the 122 local authorities that Arlingclose support.



**Table 7 Cotswold' District Council investment returns v Arlingclose clients (122) as at 31 March 2023.**



**8. COMPLIANCE REPORT**

- 8.1** The Chief Finance Officer reports that all treasury management activities undertaken during 2022/23 complied fully with the CIPFA Code of Practice and the Authority’s approved Treasury Management Strategy.
- 8.2** Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

**Table 8: Debt Limits**

	<b>31.3.23 Actual £m</b>	<b>2022/23 Operational Boundary £m</b>	<b>2022/23 Authorised Limit £m</b>	<b>Complied</b>
Borrowing	0.451	40.000	45.000	✓

- 8.3** A £0.500m loan administered by Abundance Investments Limited was taken out in 2022/23 for the purpose of Community Municipal Investments. The authority has no further external debt at 31 March 2023.



## 9. TREASURY MANAGEMENT INDICATORS

9.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

### Security

9.2 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 9: Portfolio average credit rating

	31.3.23 Actual	2022/23 Target	Complied
Portfolio average credit	AA-	A-	✓

### Principal Sums Invested for Periods Longer than 364 days:

9.3 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 10: Limit on principal invested > 364 days

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£12.5m	£12.5m	£12.5m
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓

## 10. ALTERNATIVE OPTIONS

10.1 None

## 11. FINANCIAL IMPLICATIONS

11.1 The Council maintained an average investment portfolio of £41.097 million during 2022/23. The funds earned an average rate of return of 2.68%, this compares to 1.18% in 2021/22.

11.2 The Council budgeted for £0.582m in treasury investment and loan income for 2022/23. Actual performance was a surplus of £0.511m, with investment and loan income received of £1.093m.



**12. LEGAL IMPLICATIONS**

12.1 None

**13. RISK ASSESSMENT**

13.1 Treasury risk is managed by the application of the Council's Treasury Management Strategy. This report discusses the impact of economic risk on the value and returns associated with the Council's investment portfolio together with the risk of low interest rates on the Council's revenue budget.

**14. EQUALITIES IMPACT**

14.1 None

**15. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

15.1 None

**16. BACKGROUND PAPERS**

16.1 None

(END)



## **ANNEX A**

### **ECONOMIC BACKGROUND**

- 1.1** The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.
- 1.2** Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.
- 1.3** Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.
- 1.4** Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.
- 1.5** The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.
- 1.6** From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates



up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

- 1.7** UK and global equities remained volatile against a backdrop of high and sticky inflation, rapid policy rates tightening and an increasing risk of recession. There was a large sell-off in global equities in April, and again in June and September for both UK and global equities.
- 1.8** The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of sticky inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g., offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

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# Agenda Item 11



**COTSWOLD**  
DISTRICT COUNCIL

Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>AUDIT AND GOVERNANCE COMMITTEE – 25 JULY 2023</b>
Subject	<b>CIPFA’s POSITION STATEMENT ON AUDIT COMMITTEES</b>
Wards affected	N/A
Accountable member	Cllr Nigel Robbins, Chair of Audit and Governance Committee Email: nigel.robbins@cotswold.gov.uk Cllr Mike Every, Cabinet Member for Finance Email: mike.every@cotswold.gov.uk
Cllr	David Stanley, Chief Finance Officer Email: david.stanley@cotswold.gov.uk
Report author	Lucy Cater, Head of Internal Audit, SWAP Assistant Director Email: lucy.cater@swapaudit.co.uk
Summary/Purpose	To present to the Audit and Governance Committee CIPFA’s Updated Audit Committee Guidance along with the self assessment and evaluation toolkit to enable Committee Members to identify any training needs to ensure they meet the principles as set out in the CIPFA guidance
Annexes	Annex A – CIPFA’s AUDIT COMMITTEE POSITION STATEMENT 2022 Annex B – CIPFA’s AUDIT COMMITTEE MEMBER IN A LOCAL AUTHORITY Annex C – SELF ASSESSMENT OF GOOD PRACTICE (APP E) Annex D – EVALUATING THE IMPACT AND EFFECTIVENESS OF THE AUDIT COMMITTEE (APP F)
Recommendation(s)	<i>That the Audit and Governance Committee discusses the attached documents and Members undertake a self assessment, in readiness for the next meeting of the Committee, to identify any training needs to ensure that all skills identified in the CIPFA guidance can be met.</i>
Corporate priorities	Ensure that all services delivered by the Council are delivered to the highest standard.



Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A

## 1. BACKGROUND

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

## 2. MAIN POINTS

### Audit Committees

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council.

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

### Audit Committee Members

As a member of your authority's audit committee, you play an important role in the good governance of the authority. The audit committee contributes to its overall success by examining how its arrangements for decision making, consideration of risk and operations work. The committee has a unique view – one that is non-political. Instead of focusing on policy and decision making, it examines the 'engine' of the authority – how things get done. Most importantly, it shines a light on areas where things might be missed or need to adapt or improve. To be a success, your audit committee must have a good grasp of its role and responsibilities. It will also need to follow some good practice principles. These are set out in the CIPFA Position Statement on Audit Committees. The aim of this practical guide is to support you in your time as an audit committee member. This section of CIPFA's guidance is for members of an audit committee in an authority. It will support both elected members and co-opted independent members (also known as lay members) to understand the purpose of the committee and its functions and their responsibilities as members of the committee. It will link to other sections of CIPFA's guidance, which will provide additional resources.





### 3. FINANCIAL IMPLICATIONS

3.1 The Internal Audit Service is operating within the contract sum.

### 4. LEGAL IMPLICATIONS

4.1 None directly from this report. Internal Audit reviews consider compliance with legislation relevant to the service area under review.

### 5. RISK ASSESSMENT

5.1 Any weaknesses in the control framework, identified by Internal Audit activity, continues to threaten organisational objectives until recommendations are implemented.

### 6. EQUALITIES IMPACT

6.1 Under equality legislation, the Council has a legal duty to pay 'due regard' to the need to eliminate discrimination and promote equality in relation to:

- Race
- Disability
- Gender, including gender reassignment
- Age
- Sexual Orientation
- Pregnancy and maternity
- Religion or belief

The Council also has a duty to foster good relations, and to consider the impact of its decisions on human rights. The law requires that this duty to pay 'due regard' is demonstrated in the decision making process. Therefore your report should contain a statement as to whether the recommendation has a particular impact on any of the above groups

Any reports which relate to new policies, procedures or services or changes to policies, procedures or services must be accompanied by an appropriate equalities impact assessment (EIA). You can access further guidance and the EIA template [via the portal](#) and the Council's Equality Policy [on the website](#).

### 7. BACKGROUND PAPERS



7.1 The following documents have been identified by the author of the report in accordance with section 100D.5(a) of the Local Government Act 1972 and are listed in accordance with section 100 D.1(a) for inspection by members of the public:

- Internal Audit Progress Reports

These documents will be available for inspection online at [www.cotswold.gov.uk](http://www.cotswold.gov.uk) or by contacting democratic services [democratic@cotswold.gov.uk](mailto:democratic@cotswold.gov.uk) for a period of up to 4 years from the date of the meeting.

(END)

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

### Scope

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

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

### Status of the position statement

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

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

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

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

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

### Purpose of the audit committee

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

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

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

### Independent and effective model

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

The committee should:

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

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

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

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

## Core functions

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

The specific responsibilities include:

### Maintenance of governance, risk and control arrangements

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

### Financial and governance reporting

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

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

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

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

### Audit committee membership

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

Characteristics of audit committee membership:

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

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

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

## Engagement and outputs

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

To discharge its responsibilities effectively, the committee should:

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

## Impact

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

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

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# Audit committees:

practical guidance for  
local authorities and police

2022 edition

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

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

# The audit committee member in a local authority

2022 edition

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Alan Finch (Local Government Association), Andrew Chapell (Public Sector Audit Appointments), Mike Newbury (National Audit Office) and DLUHC and Home Office representatives.
- **Members of CIPFA's Police Governance, Audit, Risk and Assurance (GARA) group and Governance and Assurance Forum:**  
Rob Winter (co-chair of GARA) and Laura Williams (Liverpool City Region).
- Jo Hendy (Welsh Local Government Association) and Chris Pyke (Cardiff Council).
- The CIPFA Public Financial Management Board.
- **CIPFA staff:**  
Charlotte Radford, Hege Larsen, Sarah Sheen and Alison Bonathan.

CIPFA is keen that the guidance provides practical support to audit committee members and those who work with the committee. It is therefore invaluable that we have interacted with audit committee members and officers through our training courses and events.

Thank you for providing your insights on the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.

**Diana Melville**

Governance Advisor, CIPFA



# Introduction to the new guidance

As a member of your authority's audit committee, you play an important role in the good governance of the authority. The audit committee contributes to its overall success by examining how its arrangements for decision making, consideration of risk and operations work. The committee has a unique view – one that is non-political. Instead of focusing on policy and decision making, it examines the 'engine' of the authority – how things get done. Most importantly, it shines a light on areas where things might be missed or need to adapt or improve.

To be a success, your audit committee must have a good grasp of its role and responsibilities. It will also need to follow some good practice principles. These are set out in the **CIPFA Position Statement on Audit Committees**.

The aim of this practical guide is to support you in your time as an audit committee member.

This section of CIPFA's guidance is for members of an audit committee in an authority. It will support both elected members and co-opted independent members (also known as lay members) to understand the purpose of the committee and its functions and their responsibilities as members of the committee. It will link to other sections of CIPFA's guidance, which will provide additional resources.

## FURTHER SECTIONS OF CIPFA'S GUIDANCE

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

*Guiding the audit committee* is a supplement to the member guide. It is aimed at those who support the committee, helping them to ensure that its operations are in accordance with the appropriate legislation and good practice. It also includes links to additional resources that are relevant for the committee's work. Audit committee members may also wish to access this supplement.

There are several appendices available, including example terms of reference, improvement tools and a knowledge and skills framework. These are available across all parts of this publication.





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# The purpose of audit committees

## Purpose of the audit committee

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

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

## Impact

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

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

CIPFA Position Statement 2022

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

The overall aim of good governance is to align the authority's processes and structures with the attainment of sustainable outcomes. In practice, this means ensuring that:

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

Governance for the sector is defined in **Delivering Good Governance in Local Government: Framework** (CIPFA/Solace, 2016) as follows:

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

Good governance is ultimately the responsibility of the governing body (the full council or equivalent), as well as those with leadership roles and statutory responsibilities in the organisation, including the elected mayor (where applicable), chief executive, the chief financial officer (CFO)

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

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

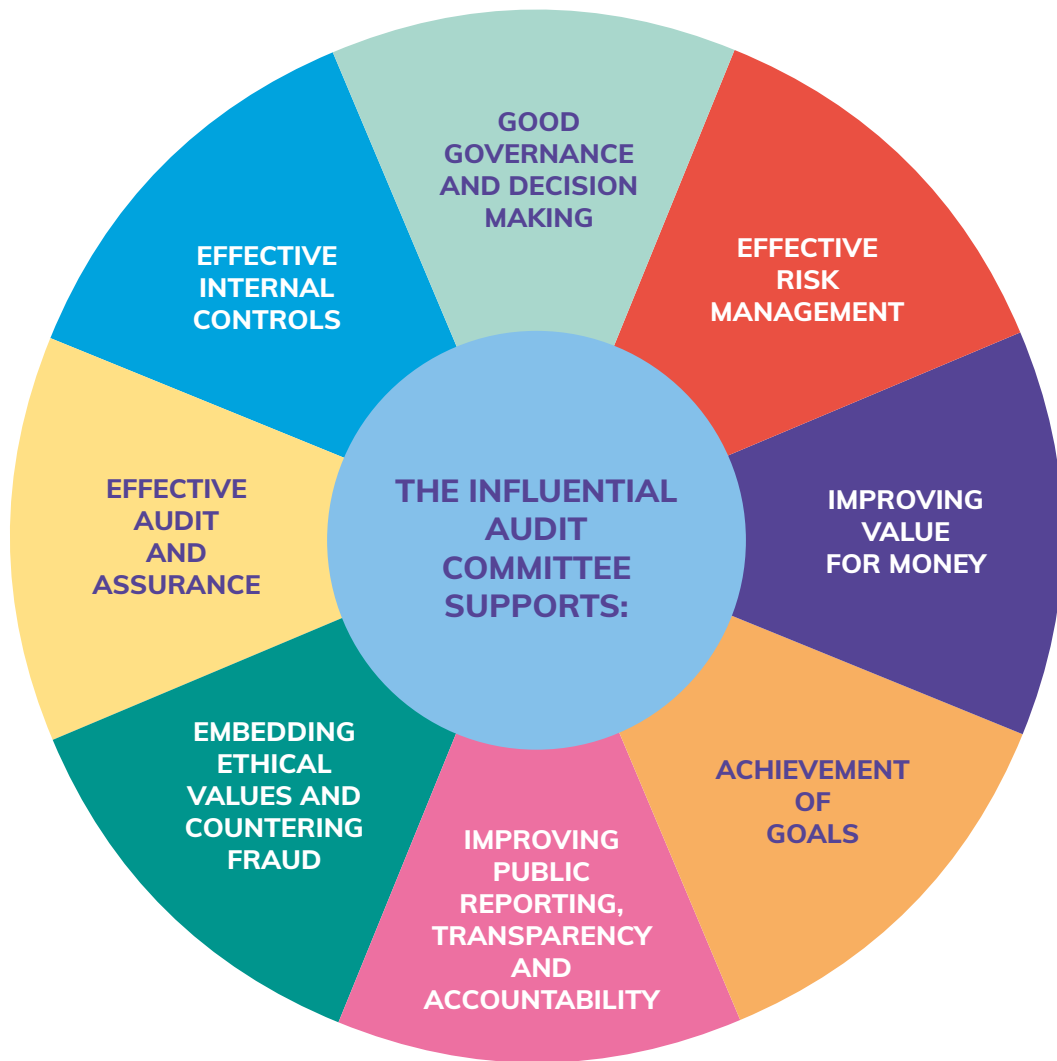
As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource for the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging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

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

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

The influence that an effective audit committee can have in these areas is set out in Figure 1.

Figure 1: The influential audit committee



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



# The core functions of an audit committee

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

This chapter identifies the core areas of business for an audit committee and explains why they are important. The way the audit committee works must align with legislation and recommended guidance for some of these areas. This guidance is consistent with the requirements and key references are identified. *Guiding the audit committee* provides further details where required, together with links to additional resources.

The Position Statement sets out the core functions of the audit committee as follows.

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

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

## **Financial and governance reporting**

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

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

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and conformance to professional standards
  - support effective arrangements for internal audit
  - promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

The Position Statement sets out the core functions of the audit committee. Essentially, the responsibilities of the committee fall into three broad areas:

- 1 Supporting the establishment and maintenance of good governance, risk management and control arrangements.
- 2 Supporting accountability and public reporting, in particular the financial statements and the annual governance statement, and other statements that accompany the financial statements.
- 3 Supporting the establishment and maintenance of good arrangements for internal audit and external audit.

It's important to understand each area, and each area complements and supports the others. To be effective, the audit committee will need to operate across all areas and not just focus on one or two aspects.

The remainder of this section explains each of these areas in more detail. *Guiding the audit committee* provides more details on legislation, standards and supporting resources.

## MAINTENANCE OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

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### Good governance

Local authorities should actively apply the framework of good governance (**Delivering Good Governance in Local Government: Framework** (CIPFA/Solace, 2016)) ('the Framework') and the seven principles of good governance. The audit committee plays an important role in supporting the Framework, not least with its approval of the annual governance statement (AGS), which should align with the Framework. CIPFA recommends that authorities should have a local code of governance to clearly explain how their arrangements are consistent with the principles of good governance. Where there isn't a local code, this information will be available through several sources. Whether or not there is a code, the committee should be able to understand what the authority's arrangements for governance are.

To provide a meaningful review of the AGS, audit committee members should be able to draw on their knowledge of the governance arrangements and on assurances they have received during the year. The audit committee should undertake the following activities to discharge their responsibilities:

- Review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted).
- Ensure that a framework of assurance underpins the AGS (see **Assurance and audit arrangements** for more details on assurance planning).
- Over the course of the year, receive reports and assurances over the application of the governance arrangements in practice.
- Review the governance arrangements being put in place for major developments, such as the establishment of a collaborative arrangement or trading company.
- Monitor implementation of action plans or recommendations to improve governance arrangements.
- Consider how the organisation applies governance principles in practice during the committee's review of other agenda items.



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

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

Further details on the AGS and the committee's role in reviewing it are included later in **Accountability and public reporting**.

## Ethical framework

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

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

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

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

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

The authority will have specific arrangements in place to oversee and operate standards, such as a standards committee, and the audit committee will not duplicate its responsibilities. Instead, its role is to oversee the arrangements that are in place to establish and maintain ethical standards and to obtain assurance over them. This supports the AGS.

Assurance over ethics will come from internal audit or from other sources of assurance, particularly for the annual review underpinning the AGS.

## Risk management

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

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

- 1** Assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the ownership of and accountability for risks. Specifically, this includes:
  - overseeing the authority's risk management policy and strategy and their implementation in practice
  - overseeing the integration of risk management into the governance and decision-making processes of the organisation
  - ensuring that the AGS is an adequate reflection of the risk environment.
- 2** Keeping up to date with the risk profile and the effectiveness of risk management actions by:
  - reviewing arrangements to co-ordinate and lead risk management (an example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency across the organisation)
  - reviewing the risk profile and keeping up to date with significant areas of strategic risks, major operational risks or major project risks and seeking assurance that these are managed effectively and owned appropriately (the committee should avoid duplication of risk monitoring and scrutiny undertaken by other committees)
  - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
  - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- 3** Monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
  - overseeing any evaluation or assessment of the body's arrangements, such as a risk maturity assessment or risk benchmarking
  - reviewing evaluation, assurance and audit reports on risk management and monitoring progress on improvement plans.

### Acting as a risk committee

Local government bodies do not usually establish a dedicated committee with responsibility for risk management. Instead, committees such as policy and resources, cabinet or scrutiny are likely to play a role in the oversight of individual risks and the adequacy of the risk response. The leadership team, including the executive member body, will take the lead in establishing the risk appetite of the authority. The audit committee should understand the roles played by other committees to avoid duplication and confusion with its own role.

Where other member bodies do not actively review key risks, the audit committee could take on additional functions involving more in-depth reviews of risks. In doing so, the committee should be mindful of when it is acting as a risk committee rather than just as an audit committee.

These functions could include:

- regular reviews of risk registers, particularly strategic risks, and significant operational risks to consider their adequacy and effectiveness in capturing and assessing risks
- risk challenge to evaluate whether planned mitigations are appropriate and effective, making recommendations to the responsible risk owner where appropriate
- identifying dependencies or links between risks and considering if the planned mitigations recognise this
- considering if risks have been escalated appropriately and in a timely manner
- supporting the leadership team in their review of risk appetite, though the final decision should remain with the leadership team.

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

## Internal controls

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

- manage risks
- allow agreed policies and processes to be put into practice.

In doing these two things, an effective 'internal control framework' will make it more likely that the authority's objectives will be achieved. The internal control framework is a way of describing the complete set of controls that management have put in place.

Controls may take different forms according to the risks that they are intended to manage and their purpose. Some examples of controls include the following:

- Access controls within an IT system determine who has access to that application and the available functions and data (a preventative control).
- Procurement rules, guidance and relevant training may be used to ensure that procurement decisions are within the law and achieve best value (a directive control).
- An exception report identifies outlier transactions in a process for review and approval by management (a detective control).
- Procedures to ensure that a copy of data is kept secure and away from the primary system to allow for recovery (a corrective control).

The control framework will include many corporate arrangements such as an authority's financial regulations, contract standing orders and human resources policies, as well as service-specific controls embedded within a range of policy documents, guidance notes, training manuals and instructions. Some authorities use a structured framework to classify their control frameworks. Some controls are fundamental to a system; often, they are described as 'key controls'.

The effectiveness of the internal control framework should be considered as part of the annual review on governance. Where there are significant control failures, or an overall weakness in the framework, then it should be considered for disclosure in the AGS. CIPFA's **Financial Management Code** (FM Code) (2019) provides a set of principles covering the operation of financial management throughout the authority to help ensure that internal financial controls operate effectively. Assurance over the level of compliance with the FM Code should be considered as part of the annual review on governance.

The head of internal audit's annual opinion (see [Internal audit](#)) will provide an annual opinion covering the framework of internal control alongside that of risk management and governance. This too will inform the AGS. Reports from internal audit and external audit will provide assurance on the adequacy of specific controls.

Historically, internal audit and the audit committee were expected to focus most on financial controls, but today the focus of both will encompass a much broader set of controls.

While a range of internal controls are essential, the audit committee should be conscious that too many controls could result in greater inefficiency or ineffectiveness in an operation. Controls may also become outdated or otherwise no longer fit for purpose. Introducing new controls may incur additional costs or other resources. The committee should strive to ensure that the authority has an appropriate level of internal control linked to the authority's attitude to risk.

## Value for money and best value arrangements

Making best use of resources is a key aim for all local authorities and is part of the governance framework. One of the behaviours and actions that underpins Principle C of the Framework is "delivering defined outcomes on a sustainable basis within the resources that will be available". Making best use of resources is an essential enabler to achieving the goals and objectives that the authority has set for itself.

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

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

Using this information, the scrutiny committee will challenge whether the authority is on track to achieve its performance targets and meet its objectives. They will highlight areas where value for money may be an issue. The audit committee will first focus on the overall arrangements that are being put in place to achieve value for money. They will receive assurances, from internal audit or from other sources of assurance, on how effectively those arrangements work in practice. As a result of the work of the audit committee, areas of concern about value for money may be identified and recommendations for further action or investigation made.

The audit committee will see references to value for money as part of other areas within its terms of reference. For example:

- Internal audit reports may highlight a value-for-money risk as part of a wider assurance review. It may feature in the head of internal audit's annual opinion.
- The AGS should include reference to how effectively the value-for-money aspect of governance is operating in practice. A value-for-money concern could be included as a recommendation for action if it were significant.
- Output from the risk management arrangements may highlight risks to value for money.

One major area where the audit committee will receive assurance on the adequacy and effectiveness of value-for-money arrangements is from the authority's external auditors. Across the UK, the different audit arrangements have resulted in differences in how value for money and best value are considered by the auditors. Further details of audit codes are set out in *Guiding the audit committee*.

## Countering fraud and corruption

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. If money is misdirected or assets lost to fraud, it means that limited budgets are less able to meet service demands and fulfil the authority's objectives. When any authority experiences a significant fraud or case of corruption, it damages public perception of that authority and undermines public trust. Effective counter fraud and anti-corruption arrangements also relate to the ethical standards that the public expects members and officers to uphold.

The audit committee should have oversight of the authority's arrangements for managing the risks from fraud and corruption, providing assurance that they are fit for purpose. The arrangements should extend beyond having the facility to investigate an allegation or other evidence of fraud. It should include a much broader strategy and understanding of the risks. Guidance on establishing such arrangements is available to authorities in the [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#) (2014).

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

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community
- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the overall performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses
- consideration of assurance provided by internal audit.

The CIPFA guidance on the AGS recommends that the adequacy of counter fraud arrangements is evaluated and reported in the AGS using the counter fraud code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice.

## Arrangements for partnerships, collaborations and subsidiaries

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

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

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

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

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

It is also important that the committee clarifies its own responsibilities in relation to the governance arrangements of the new service delivery organisation. Will they act as the audit committee for the new structure, for instance?

The audit committee should consider assurances that underpin the AGS to make sure that partnerships are covered. Where a partner organisation (such as a shared service entity) does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body to support the CFO.

## ACCOUNTABILITY AND PUBLIC REPORTING

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Public bodies must operate transparently, and being accountable to the public and stakeholder groups is a fundamental aspect of governance arrangements. The audit committee plays a key role in supporting the body's accountability for the use of public money and for the way it is governed. While other public reports are also available, the annual financial reports and the annual governance statements are important accountability statements that are mandated by legislation and guided by professional standards. These accountability statements are the responsibility of those charged with governance, but the audit committee will play a key role in reviewing the arrangements that underpin them and reviewing the statements themselves.

### Financial reporting

Local government bodies are required to produce their statutory statements of accounts in accordance with professional accounting standards to ensure a consistent approach and appropriate treatment. This provides confidence to the user in the financial results. The accounting standards are determined by CIPFA/LASAAC and are set out in the **Code of Practice on Local Authority Accounting in the United Kingdom**, updated annually. These standards must incorporate both International Financial Reporting Standards (IFRS) and any adaptations or interpretations necessary for the local government context and local government legislation. A particularly important part of this is the legislative framework that changes what is charged to a revenue account under accounting standards (IFRS) to mitigate or manage the impact of those standards on council taxpayers. As a result, the accounts have an extra layer of complexity that an organisation such as a limited company would not have.

The primary users of financial statements are the recipients of the local services provided and their representatives, together with the providers of the resources required to deliver those

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

CIPFA's [Guide to Local Government Finance](#) (2019) sets out details of accounting concepts and principles that underpin the financial reports. The key financial statements are as follows:

Key statements in annual accounts	
<b>Comprehensive Income and Expenditure Statement</b>	This is where all the income and expenditure of the authority is recorded in line with accounting rules. This statement is similar to the one you would find in a private company.
<b>Movement in Reserves Statement</b>	This statement shows the impact of the financial year on the authority's reserves. It also includes all the income and expenditure that is recognised under accounting rules but then removed from the accounts by legislation to give the amount of expenditure that has been funded by the local taxpayer.
<b>Balance Sheet</b>	This statement summarises an authority's financial position at each year-end and reports the assets, liabilities and reserves of the authority. Some of the reserves are specific to authorities, such as the pensions reserve and the capital adjustment account, and exist to allow accounting entries required by legislation. This statement is similar to the one you would find in a private company.
<b>Cash Flow Statement</b>	This summarises the cash flows that have been made into and out of the authority's bank account during the financial year. This statement is similar to the one you would find in a private company.

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

Authorities are required to include a narrative report in the accounts (management commentary in Scotland). This should provide information on the authority, its main objectives and strategies, the principal risks that it faces and how it has used its resources to achieve its desired outcomes in line with its objectives and strategies. For a non-expert reader, this report will help to explain the statements and help demonstrate the extent to which the objectives of the authority have been achieved.

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

### Accounts preparation

The preparation of the statutory statements of accounts is the responsibility of the CFO. The deadline for the publication of the statements is set out in regulations by each of the UK governments. Recently, achieving these deadlines has been adversely impacted by the COVID-19 pandemic and delays in the completion of audits. Monitoring the status of both completion of the statements and liaison with the auditors before publication will be important for the audit

committee. The audit committee will want assurance that the finance team can deliver a set of financial statements of appropriate quality in accordance with the statutory deadlines. Factors they will wish the finance team to highlight to them include:

- significant changes in accounting policies and their implications
- significant judgements made by the authority on material transactions
- changes to the operational basis of the authority – for example, the establishment of a trading company that will need to be consolidated into the accounts
- capacity and capability within the finance function to meet quality standards and deadlines
- whether there have been previous problems with the quality of the financial statements – for example, issues and recommendations from the previous year’s audit
- issues arising from any internal assurance or internal audit reviews and actions taken
- any changes to the external audit requirements that could have implications for the preparation of the statements – for example, the drive to improve audit quality has included increased professional scepticism.

### Reviewing the statutory statements of accounts

The complexity and length of the financial statements can be daunting for audit committee members, especially if this is an area where they do not have prior experience. CIPFA has resources that will provide more detailed guidance on the statements and underlying concepts, and specific training is also recommended.

Key areas that the committee should focus on in their review are as follows:

- The narrative report, ensuring that the messages are consistent with the financial statements. The committee should also consider the implications of the issues and challenges identified and consistency with other risk information provided.
- What steps have been taken to make the narrative report readable and understandable to a non-expert and whether steps have been taken to make the accounts accessible. CIPFA’s **Streamlining the Accounts** (2019) includes a section on the presentation and layout of the accounts.
- Reviewing the completeness of the information reported and asking about the steps taken to ensure that the disclosures are complete.
- Identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years.
- Monitoring trends and reviewing for consistency against financial performance observed over the course of the year.
- Reviewing the suitability of accounting policies and treatments and any changes to them – for example, asking the CFO to highlight to the committee where accounting treatment is open to different approaches and explaining why the method used has been chosen.
- Seeking explanations for changes in accounting policies and treatments – for example, where there has been a change in the accounting standards.
- Reviewing major judgemental areas – for example, provisions or reserves.

**Understanding Local Authority Financial Statements** (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority’s statements that audit committee members may find particularly helpful.



A current topic for discussion is whether further steps could be taken to make the financial statements more understandable for the public. A recommendation of the Redmond Review was that a standardised statement of service information and costs should be prepared and presented alongside the statutory accounts. This recommendation is still under discussion and review, and the introduction of such a statement would be a development of interest to the audit committee. The audit committee will be interested in any steps taken to improve transparency and accountability by ensuring that the key messages are accessible to users.

## Annual governance statement

The committee's role in supporting the principles of good governance and the local code of governance was outlined in the section on supporting good governance, risk management and internal control. The AGS is the key annual public report that requires the authority to evaluate the effectiveness of its governance arrangements.

While the committee will see other agenda items that describe the governance arrangements that have been established – notably updates to the local code of governance – the AGS is all about evaluation. It is an assessment of how good those arrangements are in practice, leading to an opinion on whether they are fit for purpose. Where there are areas for improvement, these should be identified and an appropriate action plan established.

The audit committee should play a key role in reviewing the AGS prior to its final approval. It is typical for the AGS to be provided in draft, usually at the same time the financial statements are prepared. The timetable for final publication follows the regulations of the relevant UK national government.

Key aspects that the audit committee should consider when reviewing the AGS include:

- whether the statement is user friendly for a lay reader
- whether the statement focuses on evaluation, leading to a clear opinion of whether arrangements are fit for purpose and meet the principles of good governance
- whether the AGS is an accurate representation of arrangements, consistent with other information known to the committee (committee members should be able to recognise their own authority's strengths and weaknesses)
- whether it includes appropriate disclosures on conformance with specified codes and standards and is consistent with current CIPFA guidance
- whether the AGS is supported by an appropriate action plan to implement the required improvements and if this is robust.

Although the AGS publication follows the same timetable as the financial statements, it can also be published as a separate accountability report. This would help raise its prominence and value to local stakeholders, providing improved transparency.

## ASSURANCE AND AUDIT ARRANGEMENTS

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### Assurance frameworks and assurance planning

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

For the audit committee member, reviewing assurances on the operation of governance, risk management and control arrangements is a core part of their role. The committee should also be concerned to know that an adequate assurance framework exists to inform the leadership team.

The audit committee may see references to the Three Lines Model of assurance developed by the Institute of Internal Auditors (IIA). More details of the model are contained in *Guiding the audit committee*. Briefly, the Three Lines Model identifies three different types of assurance:

- Management assurance – embedded in line management arrangements.
- Oversight and compliance assurance – review and monitoring functions.
- Independent assurance (internal audit).

Occasionally, there might be reference to the ‘fourth line’, referring to assurance that comes from outside the authority such as from external auditors or inspectorates.

Some authorities set out their assurance arrangements in a map or diagram. Typically, these outline key areas of the assurances needed and identify the assurance providers.

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

- Clarity on what assurance is required.
- Clear allocation of responsibility for providing assurance.
- Avoiding duplication, bearing in mind the differing objectives of assurance activities.
- Improving the efficiency and cost effectiveness of assurance.
- Obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Each authority has core activities that are central to its effective operation, and the audit committee should consider what assurance it receives on these, whether through the annual governance review, internal audit or management assurance. Core arrangements would include financial management and counter fraud, but other key areas include information governance, information security, procurement, ethical governance, human resources and health and safety.

In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the authority, and it should therefore be proportional to the risk.

## Supporting and making best use of audit

Supporting the authority’s auditors, both internal audit and external audit, is an important dimension to the committee’s work. Helping to make best use of the process of audit and audit outputs will contribute to the committee’s overall purpose. This section explains the committee’s interactions with both internal and external audit and the role of the committee in supporting effective arrangements.

### External audit

Within an authority, the full council – all elected councillors – are characterised as “those charged with governance”. In practice, the exercise of some governance responsibilities is delegated to specific committees. This is of particular importance in relation to external audit, as external auditors are required by auditing standards to report to “those charged with governance”. While

the audit committee is the representative body for much of the interface with the external auditors, it is important to remember that all councillors have a governance responsibility, and it is important that they are familiar with key messages from the authority's external auditors.

The audit committee will have several interactions with the external auditors each year following a regular cycle of planning and reporting. There are also roles for the committee in supporting the independence of the auditors, the effectiveness of the external audit process and the impact of their work. The following sections provide more support for the critical interactions between the auditor and the committee. External audit is subject to stringent professional standards and some of these are highlighted in *Guiding the audit committee*. Committee members should recognise that these standards do require auditors to operate in a certain way.

## Appointment

In some other sectors, the audit committee plays a lead role in the appointment of the external auditor. In local government, one of the principles of public audit is that appointment should be independent of the organisation. In local government bodies in Wales, Scotland and Northern Ireland, the national audit bodies are responsible for the delivery of local audit. In England, the **Local Audit and Accountability Act 2014** changed the appointment and delivery model for local government bodies, introducing a more direct role for the authority.

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

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

## Monitoring the external audit process

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

- 1 To provide assurance that the external auditor team maintains independence following its appointment.
- 2 To receive and consider the work of external audit.
- 3 To support the quality and effectiveness of the external audit process.

## Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process.

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

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA, the auditor panel (in England), or from audit quality reviews by the Financial Reporting Council (FRC) or the Institute of Chartered Accountants in England and Wales (ICAEW). Regarding non-audit services, audit committees should monitor the approval of non-audit work and, in England, consider the oversight of either PSAA or the auditor panel as appropriate.

### **Receiving and considering the work of external audit**

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

While the Code of Audit Practice for each nation will specify exact outputs, the reports from the external auditors are likely to include the following:

- A plan – including approach, risks, team, timetables and outputs.
- Interim reports – reporting on progress, new developments and interim conclusions.
- An opinion on the financial statements and the outcome from the audit. The auditor will also identify any material errors and recommendations.
- Best value or value-for-money arrangements reports – the format of these vary according to the Code of Audit Practice the auditor is working to.
- An annual report.

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

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

Auditors may also report by exception. If they identify an area of concern, then the auditors may investigate and may make a recommendation for improvement or a public report. Any such action should be taken very seriously by the audit committee.

### **Supporting quality and effectiveness**

If the audit committee member has no prior experience of audit committee work or external audit, then reviewing the quality of external audit can be a challenging aspect of the work and one where additional training may be required. It is an important aspect of the work of the committee, as it sets expectations for the auditor for the timely delivery of a high-quality audit. It should also support better engagement and interaction between auditor, committee and management. Overall, active interest from the committee will support better outcomes in terms of confidence in the audit opinion, usability of audit output and better understanding of the audit process.

*Guiding the audit committee* signposts resources on audit quality that can be of use to audit committees.

## Reports from inspectorates or other regulatory bodies

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

Where inspectorates are focused on operational matters, the committee's role may be limited, but all external assessments and recommendations provide assurance on the robustness of governance, risk and controls within the authority. It is therefore important that the committee is aware of the overall conclusions. Where issues are highlighted by inspections within the remit of the committee, it may play a more active role – for example, reviewing the implementation of an improvement plan. The committee will also want to consider how the work of these assurance providers are taken into account as part of external audit or internal audit.

## Internal audit

The authority's internal audit service, whether an in-house team or provided through a shared service or outsourced arrangement, is an essential partner for the audit committee. It is a major source of assurance, providing coverage across many areas that the audit committee will want to know about. The committee also plays an important role in the support for and oversight of the internal audit arrangements, helping to hold it to account. This role is in part determined by the professional standards that the internal auditors must adhere to.

The specific roles of the audit committee in relation to internal audit are to:

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

The activities that underpin these three objectives are below.

### Oversee independence, objectivity, performance and professionalism

The Public Sector Internal Audit Standards (PSIAS) set out functional reporting arrangements for internal audit to ensure its organisational independence. These are requirements of the professional standards, so there is an expectation that the audit committee should provide support. Each authority will have an internal audit charter, which will set out reporting relationships for internal audit, and the audit committee terms of reference will need to include those elements that relate to it. The charter is likely to set out the audit committee's responsibility to:

- review or approve the following:
  - the internal audit charter
  - the risk-based internal audit plan
  - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit (referred to in the PSIAS as 'chief audit executive') or the award of a contract for internal audit services

- make enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations on internal audit
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the head of internal audit's annual report, which includes:
  - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
  - a summary of the work on which internal audit has based the opinion
  - a statement on conformance with the PSIAS and the Local Government Application Note (LGAN)
  - the results of the quality assurance and improvement programme (QAIP), including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor
- receive the report on the external assessment of internal audit (at least once every five years), including its overall conclusion and any recommendations (the committee should monitor the implementation of the improvement plan).

The head of internal audit, also known as the chief audit executive, must have unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the QAIP, at least once every five years.

### Support effective arrangements for internal audit

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. It should help ensure that the authority's internal audit is effective, which will mean that the audit committee is better supported, with access to the assurance it needs. Effective internal audit also supports better governance and control arrangements, which are aligned to the audit committee's overall purpose.

Defining the conditions for effective internal audit is not straightforward – different authorities may feel they have effective arrangements using very different service models, for example. However, there are some essential conditions that internal audit needs to be effective:

- A service that operates in accordance with PSIAS.
- A service with access to sufficient and appropriate capacity and capability.
- Leadership from the head of internal audit.
- Good engagement with the committee and management.
- An organisational culture that actively promotes and understands the role of internal audit.

While the designated head of internal audit can be expected to be responsible for internal audit activity, the audit committee plays an important role in supporting the organisation's attitude to and understanding of internal audit. The [CIPFA Statement on the Role of the Head of Internal Audit](#) (2019) sets out the conditions that can make internal audit effective. It is relevant for audit committee members as well as the head of internal audit. CIPFA's research report [Internal audit: untapped potential](#) (2022) also addresses whether public bodies are getting the most from internal audit.

The following activities form a core part of this:

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

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

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

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

To get the best out of internal audit, the audit committee's understanding of and support for effective risk management and wider assurance arrangements is helpful.

Periodically, there are changes made to the PSIAS and LGAN, as well as more specific guidance to auditors. As a result, the committee may need to receive updates or briefings to ensure that they are aware of the latest requirements.

## **ENSURING THE FOCUS OF THE AUDIT COMMITTEE**

The core functions of the audit committee are wide ranging. At some meetings, it will be inevitable that certain agenda items take priority to meet statutory deadlines. Audit committees should aim to ensure that within each year there is adequate coverage of each of the core functions. The assurance framework of the authority should be a useful resource to support this.

**Independence and accountability** covers agenda management and **Membership and effectiveness** of the audit committee covers the annual review of the effectiveness of the committee.





# Possible wider functions of an audit committee

In addition to the core functions of the committee defined in the CIPFA Position Statement, there are some wider functions that it may be necessary or appropriate for the committee to take on. For audit committees of councils in Wales, there are some specific requirements set out in legislation.

## REQUIREMENTS OF GOVERNANCE AND AUDIT COMMITTEES IN WALES

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

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

### Scrutiny of financial affairs

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

### Performance assessment arrangements

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

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

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

### Developing the approach to the review

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

CIPFA's suggested approach includes:

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

## Arrangements for handling complaints

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

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

## TREASURY MANAGEMENT

### **Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance**

**Notes** (CIPFA, 2021) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not specify this to be an audit committee role, and a local authority may nominate another committee instead. CIPFA is aware, however, that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance.

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

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

- Developing greater awareness and understanding of treasury matters among the committee members.
- Reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory.

- Receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause three of the Treasury Management Code, so the purpose of receiving regular reports should be clear.
- Reviewing the treasury risk profile and adequacy of treasury risk management processes.
- Reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area, so it is likely that committee members will require training, guidance and support when undertaking scrutiny.

## SUPPORTING CORPORATE IMPROVEMENT PROGRAMMES

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When an authority is working to an improvement programme – perhaps following a best value review or inspection – there is likely to be an oversight role for the audit committee. The committee should receive assurances that actions are being implemented and recommendations addressed. There may be a dedicated board for the programme and the committee would not seek to duplicate their work. It will need to understand progress, as it will be an area of interest to the external auditors and will link to the action plan of the AGS. Where there are areas of improvement directly within the remit of the committee, it may play a more active role.

## CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

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

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

In each case, the aim of the committee should be to make recommendations in line with its role as set out in the Position Statement: advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place.

Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.



# Independence and accountability

The audit committee of an authority should be established in accordance with the principles set out in the 2022 Position Statement. These will ensure that the committee is independent from other committees in the authority and is accountable to those charged with governance.

## Independent and effective model

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

The committee should:

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

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

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

## Engagement and outputs

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

To discharge its responsibilities effectively, the committee should:

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

CIPFA Position Statement 2022

## STRUCTURE AND INDEPENDENCE

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### Committee size

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

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

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

### Reporting lines

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

### Dedicated focus

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

### Decision-making powers and delegations

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

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

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

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

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

authorities operate on a principle of openness and transparency, so there should not be a difficulty in providing relevant information. At all times, the authority will need to have regard for maintaining confidentiality of personal or commercially sensitive data in accordance with guidance.

There may be times when it is not considered timely to provide the information requested – for example, where information is sensitive because of an investigation. In such cases, an adequate explanation should be given and an indication of when information might be available. The chair in particular needs to be briefed.

It is important for audit committee members to maintain an apolitical approach and a focus on overall arrangements rather than individual cases. The committee is not an investigative forum.

It will be helpful to request the attendance of officers at the committee to support discussion of a topic or to agree on the next steps. For example, if the committee wishes to review an internal audit report that identified significant areas for improvement, then it would be appropriate for the lead manager or director responsible for that service to attend the committee to discuss how they will address the weaknesses.

## ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

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### Supporting the audit committee

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

The chair of the committee should take part in planning the agenda, helping to ensure that the committee addresses its terms of reference.

### Frequency of meetings

CIPFA recommends the committee should meet a minimum of four times per year. The number and frequency of meetings should be determined by what is efficient and effective to cover the work of the committee.

Some agenda items need to be considered at certain times of the year, such as the financial statements and AGS. Other items will be more flexible and others determined by urgency. An annual meetings planner can help to schedule core business throughout the year to achieve adequate coverage and a balance of activity.

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

## Transparency

Audit committees will normally meet in public, and agendas and minutes will be published. On occasion, there will be agenda items that meet the criteria to be heard in private. The chair should receive advice when a 'part 2' report is scheduled. The rationale for this should be stated.

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

## Meetings and interaction outside scheduled meetings

The committee may meet informally as required to fulfil other requirements – for example, to take part in training or briefing or conduct a self-assessment.

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

It is likely that some information will be shared with committee members outside scheduled meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

## Private meetings with the external auditor and head of internal audit

It is standard practice for the external auditors and head of internal audit to have direct access to the audit committee. This helps to reinforce the independence of the auditors, helping them to maintain their professional standards. It also reinforces the independence of the audit committee. A private meeting provides a safe space for discussions and questions. Even if the auditor has no concerns, the meeting provides additional assurance of that.

Suggested questions to ask at a meeting include the following:

- Are you free to determine the scope of internal audit without interference?
- Do you have the access to senior management that you need?
- Do you have any concerns about governance arrangements that you are not comfortable sharing in front of management or in public?
- Are there any emerging governance risks that the committee should be alert to?

The meeting could also be used to test out a question on the auditor, perhaps when the audit committee member is not sure if it is an appropriate question to ask. The meeting thus provides a safe space for committee members and enables the member to ask with confidence in the open meeting. However, it is important that a private meeting is not used as a substitute for formal committee meetings, as this would undermine openness and transparency. Like all aspects of the committee's work, a private meeting should be non-political.

As a minimum, there should be a facility for a private meeting once a year, but they should be made available on request. The committee can meet separately with external audit and the head of internal audit, but a joint meeting could also be an option. To support transparency, the chair should report that a private meeting has taken place at the next audit committee meeting and summarise the topics discussed.



If governance concerns are raised with the audit committee in a private meeting, the chair of the audit committee should agree appropriate steps with the auditor. This would normally include follow-up discussions with one or more of the statutory officers.

## KEY RELATIONSHIPS

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To be effective, an audit committee will need to engage with a wide range of officers. Representatives of finance and internal audit will attend regularly and often are a source of support to the committee, but other senior officers would normally be expected to attend. While it is for each audit committee to determine who attends its meetings, the following examples show the wide range of officers who can add value to audit committee meetings:

- The chief executive and corporate directors for the AGS and other governance-related issues.
- The monitoring officer for the AGS and ethical governance issues.
- The risk management officer for discussions around risk management.
- The head of counter fraud for agenda items on fraud risks and counter fraud activity.
- Service senior managers for audit, risk or governance discussions on their service areas.
- Scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Interactions with the head of internal audit will need to take account of the professional standards (PSIAS), so that the correct oversight and reporting can be demonstrated.

## ACCOUNTABILITY

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### To those charged with governance

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

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

### The audit committee annual report

The committee should prepare an annual report that provides assurance to all those charged with governance that it fulfils its purpose and can demonstrate its impact. This is a key output of the committee. The report should be publicly available, supporting the authority's accountability to wider stakeholders, including the public.

Suggested content for the report is set out below.

#### Alignment of the committee to recommended practice

- The report should briefly outline the extent to which it follows the CIPFA Position Statement in the following areas:
  - The size of the committee.
  - Structure and composition, including the number of independent members.
  - Reporting line and independence from other committees.
  - Whether its terms of reference include all the core functions of the committee.
- Results of the committee's annual evaluation of its effectiveness and assurance over key indicators should be reported. There should be disclosure over areas where the committee has concerns (which could link to the action plan in the AGS) and a statement of what the audit committee has done to escalate their concerns or make recommendations.
- The report should summarise how it has fulfilled its terms of reference and the key issues escalated to the leadership team or other committees during the year.
- The report should summarise the development work that will support the committee members, eg training.

The annual report should be timed to support the annual review of governance and preparation of the AGS. This enables the committee to take stock of the assurances it has received and the extent to which its own performance has contributed to governance arrangements.

The committee should consider how it can improve understanding of its work and raise its profile among other elected members. By improving understanding and engagement, the influence of the committee is likely to grow. **CIPFA has produced a set of frequently asked questions about the work of the committee** that helps communicate its role and the value it brings.

### Supporting accountability to the public and stakeholders

The committee has a key role in reviewing the accountability reports of the authority and in helping the authority to discharge its responsibilities. Committee meetings will normally be held in public, except for exempt items, so this also contributes to the accountability of the authority to the public and stakeholders. The audit committee's own annual report will also support accountability to external stakeholders.

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

### Supporting internal accountabilities

Through a review of internal and external audit reports, risk management information and other key strategies, the audit committee will hold to account those responsible for implementing recommendations and action plans. In addition, by overseeing the evaluation and improvement of governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority works well.

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

# Membership and effectiveness of the audit committee

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

## Audit committee membership

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

Characteristics of audit committee membership:

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

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

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

## Impact

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

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

CIPFA Position Statement 2022

## COMMITTEE MEMBERSHIP

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### Elected representatives and political balance

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

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

### Separation from executive roles

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

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

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

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

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

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

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

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

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

The reasons for CIPFA's recommendation are as follows:

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

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

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

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

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

### Remuneration

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

### Appointment of the chair

In Wales, a lay member will be recruited specifically to the position of chair, and in other parts of the UK, some authorities have decided on a co-opted independent member for the role. This allows the authority to specify the requirements of the chair during recruitment. In other authorities, the appointment of the committee chair will be decided according to the constitution of the authority. In all cases, it is recommended that the characteristics of an effective chair are considered. These include:

- an ability to plan the work of the committee over the year and beyond
- meeting management skills

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

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

## Knowledge and experience

There is a range of knowledge and experience that audit committee members can bring to the committee that will enable it to perform effectively. No one committee member would be expected to be a specialist in all areas, but there are some core areas of knowledge that committee members will need to acquire.

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

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

## Training and development

Audit committees should have access to support to guide them in their roles, help them to understand the key agenda items, and to keep them informed of new developments. *Guiding the audit committee* includes a suggested training and support programme.

New co-opted members may have technical knowledge and experience, but they will still need to understand the local government context with which they may not be familiar. Support should also be provided to help integrate them into the committee and familiarise them with the council's structure and processes.

Audit committee members should review their knowledge and skills – for example, as part of an annual self-assessment process or training needs analysis. As well as shaping the training plan, evidence of the assessment and delivery of training will support the profile of the committee – for example, by including it in the annual report.

## DEVELOPING EFFECTIVENESS

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

essential requirements for delivering effectiveness. The CIPFA Position Statement recommends the committee's annual report should include the results of a performance assessment.

Assessing the effectiveness of the committee should consider the following:

- An assessment of whether the committee is operating in accordance with the practices recommended in this guidance and complies with legislation (where appropriate).
- How the committee has fulfilled its terms of reference, including the core functions of the committee.
- The operation of the committee, including the support and training provided and how members have developed their knowledge and experience.
- The committee's effectiveness in terms of impact on the quality of governance, risk management and internal control, together with satisfactory audit arrangements.
- Feedback from those interacting with the committee.

## Feedback to committee members

It is normal practice in other sectors for the chair of the audit committee to provide feedback to individual members. In the political environment of an authority, this is more difficult to do. Consideration should be given to facilitating general feedback as part of a wider committee self-assessment. Suggested areas for discussion include:

- attendance
- participation in discussions and questioning
- any training needs
- suggestions for how the committee could develop.

## Appendices to support evaluation

CIPFA has developed some improvement tools for the committee to use to inform its evaluation. These are available in Appendices E and F.

The audit committee should report on its effectiveness in its annual report, and the annual report should be timed to support the AGS. More information on the annual report is available in [Independence and accountability](#).

## Problem solving

Where the committee is experiencing difficulties, the improvement tools may help to identify those areas that need change. For a newly constituted committee, or one with several new members, it can take time to build up effective operations. This is one reason why a comprehensive programme of training and support is needed.

Other difficulties can arise if there is a poor understanding of the role and purpose of the committee among others or if there is insufficient engagement.

Appendix D includes a summary of the difficulties that audit committees sometimes experience and suggestions for addressing them.





# Sector and devolved government guidance

## PART 1: COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATING TO AUDIT COMMITTEES

Guidance area	England (combined authorities)	Wales (local authorities and corporate joint committees)	England and Wales Police	England, Northern Ireland and Scotland (local authorities)
Specific legislation or statutory guidance	<a href="#"><u>Cities and Local Government Devolution Act 2016.</u></a> <a href="#"><u>Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017.</u></a>	<a href="#"><u>Local Government (Wales) Measure 2011</u></a> as amended by the <a href="#"><u>Local Government (Democracy) (Wales) Act 2013.</u></a> <a href="#"><u>Local Government and Elections (Wales) Act 2021.</u></a>	<a href="#"><u>Financial Management Code of Practice for the Police Forces of England and Wales (FMCP)</u></a> (Home Office, 2018).	Not applicable
Establishment of an audit committee	Required	Required	Required It is recommended that this should be a combined body for both PCC and chief constable.	No guidance
Composition of the audit committee	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.	The committee must have lay persons comprise one-third of its members. The member appointed as the committee chair must be a lay person. The deputy chair must not be a member of the executive or an assistant to its executive. The committee must be politically balanced.	Police audit committees should comprise between three and five members who are independent of the PCC and the force.	No guidance

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

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

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

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

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

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

### Financial reporting deadlines

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



# Suggested terms of reference – local authority

## INTRODUCTION

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This appendix contains suggested terms of reference for local authorities.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. Additional functions should be included where required.

Where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. The audit committee's terms of reference and the audit charter should align.

## SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

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### Governance

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

### Statement of purpose

The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance [or *insert appropriate governing body*] that those arrangements are effective.

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

### Governance, risk and control

- To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
- To monitor the effective development and operation of risk management in the council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the counter fraud strategy, actions and resources.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

## Financial and governance reporting

### Governance reporting

- To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

### Financial reporting

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

## Arrangements for audit and assurance

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

### External audit

- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To consider additional commissions of work from external audit.

- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
- To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

### **Internal audit**

- To approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - regular reports on the results of the QAIP
  - reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- To consider the head of internal audit's annual report, including:
  - the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
  - the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS).
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations (see Appendix A).

- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### Accountability arrangements

- To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- To publish an annual report on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.



# Suggested terms of reference – police

## INTRODUCTION

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This appendix contains suggested terms of reference for the audit committee of the PCC and chief constable. The police audit committee must ensure that its terms of reference are in accordance with the FMCP (Home Office, 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. Additional functions should be included where required.

Where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. The audit committee's terms of reference and the audit charter should align.

## SUGGESTED TERMS OF REFERENCE – AUDIT COMMITTEE OF THE PCC AND CHIEF CONSTABLE

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### Governance

The terms of reference should set out the committee's position as an advisory committee to support the PCC and chief constable.

### Statement of purpose

The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance risk and control gives greater confidence to the PCC and chief constable that those arrangements are effective.

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

### Governance, risk and control

- To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
- To monitor the effective development and operation of risk management in the OPCC and force.

- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- To consider the OPCC's and force's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To review the assessment of fraud risks and potential harm to the OPCC and force from fraud and corruption.
- To monitor the counter fraud strategy, actions and resources.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

## Financial and governance reporting

### Governance reporting

- To review the AGS prior to approval by the PCC and chief constable and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the OPCC's and force's objectives.

### Financial reporting

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- To review the annual statements of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's reports to the PCC and the chief constable on issues arising from the audit of the accounts.

## Arrangements for audit and assurance

To consider the OPCC's and force's framework of assurance and ensure that it adequately addresses their risks and priorities.

### External audit

- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the auditor panel as appropriate.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.

- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To advise on commissions of additional work from external audit.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
- To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

### **Internal audit**

- To recommend for approval the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To review the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To consider significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to recommend and periodically review safeguards to limit such impairments.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - regular reports on the results of the QAIP
  - reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- To consider the head of internal audit's annual report, including:
  - the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
  - the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS).
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the OPCC or force, or where there are concerns about progress with the implementation of agreed actions.

- To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations (see Appendix A).
- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### Accountability arrangements

- To report to the PCC and chief constable on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to the PCC and chief constable on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- To publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement.

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

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

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

## SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

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

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

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



## CORE SKILLS

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

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



# Problem-solving difficulties with the audit committee

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

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

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

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



# Self-assessment of good practice

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

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

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

## Audit committee purpose and governance

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

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

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



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

### Membership and support

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

### Effectiveness of the committee

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

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
24 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25 Does the committee make recommendations for the improvement of governance, risk and control arrangements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26 Do audit committee recommendations have traction with those in leadership roles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27 Has the committee evaluated whether and how it is adding value to the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28 Does the committee have an action plan to improve any areas of weakness?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29 Has this assessment been undertaken collaboratively with the audit committee members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Subtotal score</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Total score</b>					
<b>Maximum possible score</b>					<b>200**</b>

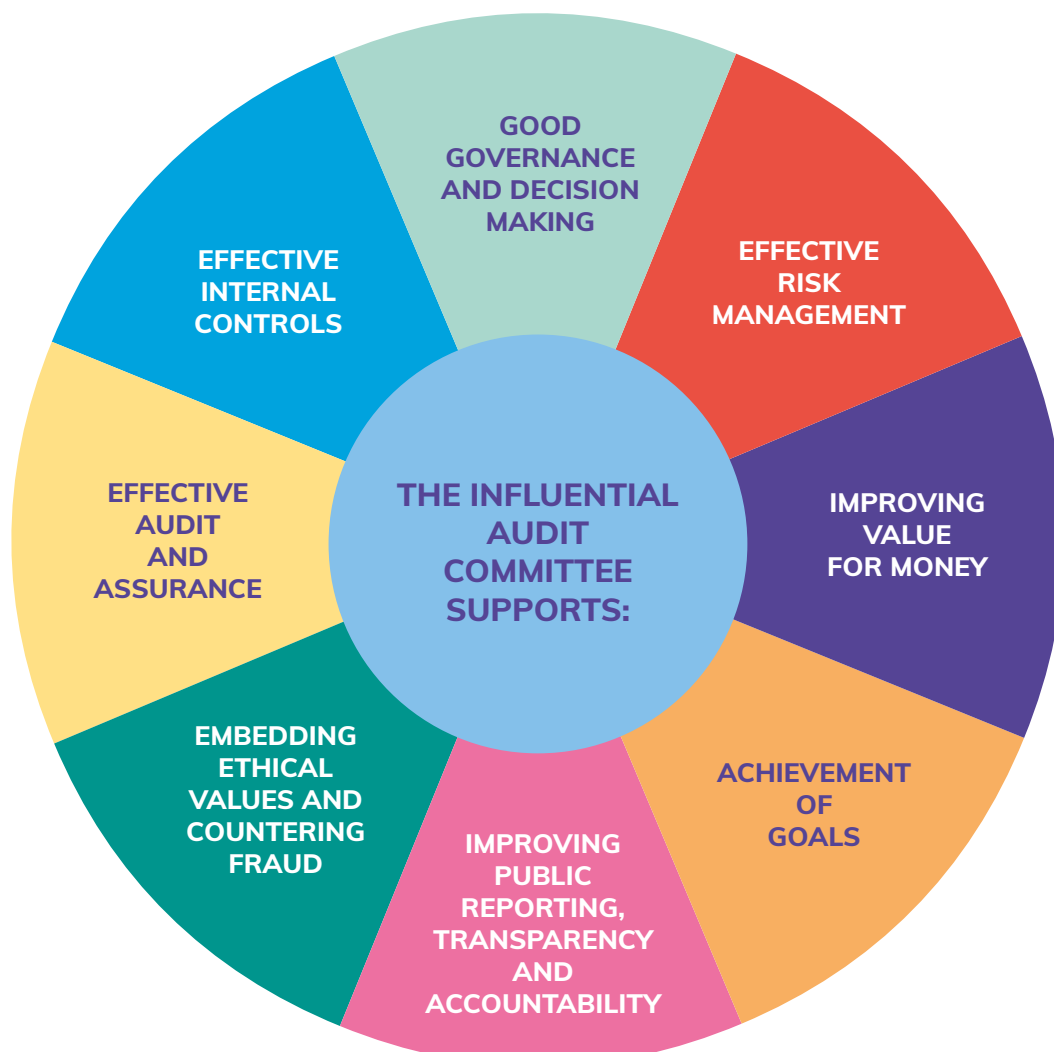
\*\* 40 questions/sub-questions multiplied by five.

# Evaluating the impact and effectiveness of the audit committee

An audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'.

The improvement tool below can be used to support a review of effectiveness. It identifies the broad areas where an effective audit committee will have impact.

**Figure 1: The influential audit committee**



The table includes examples of what the audit committee might do to have impact in each of these areas.

The third area includes key indicators that might be expected to be in place if arrangements are in fact effective. These indicators are not directly within the control of the audit committee, as it is an advisory body. They do provide an indication that the authority has put in place adequate and effective arrangements, which is the purpose of the committee.

Use the tool for discussion and evaluation of the strengths and weakness of the committee, identifying areas for improvement.

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

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

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

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

## OVERALL QUESTIONS TO CONSIDER

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

## REPORTING RESULTS

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

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

10/2022



# Self-assessment of good practice

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

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

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

## Audit committee purpose and governance

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

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

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

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

### Membership and support

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

### Effectiveness of the committee

20 Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?																				
21 Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?																				
22 Are meetings effective with a good level of discussion and engagement from all the members?																				
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Weighting of answers	0	1	2	3	5	
24 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?						
25 Does the committee make recommendations for the improvement of governance, risk and control arrangements?						
26 Do audit committee recommendations have traction with those in leadership roles?						
27 Has the committee evaluated whether and how it is adding value to the organisation?						
28 Does the committee have an action plan to improve any areas of weakness?						
29 Has this assessment been undertaken collaboratively with the audit committee members?						
<b>Subtotal score</b>						
<b>Total score</b>						
<b>Maximum possible score</b>						<b>200**</b>

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

# Evaluating the impact and effectiveness of the audit committee

An audit committee’s effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority’s business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as ‘influence’, ‘persuasion’ and ‘support’.

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<b>Contributing to the development of an effective control environment.</b>	<ul style="list-style-type: none"> <li>• Encouraging ownership of the internal control framework by appropriate managers.</li> <li>• Actively monitoring the implementation of recommendations from auditors.</li> <li>• Raising significant concerns over controls with appropriate senior managers.</li> </ul>	<ul style="list-style-type: none"> <li>• The head of internal audit's annual opinion over internal control is that arrangements are satisfactory.</li> <li>• Assessments against control frameworks such as CIPFA's FM Code have been completed and a high level of compliance identified.</li> <li>• Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement.</li> </ul>
<b>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</b>	<ul style="list-style-type: none"> <li>• Reviewing risk management arrangements and their effectiveness, eg risk management maturity or benchmarking.</li> <li>• Monitoring improvements to risk management.</li> <li>• Reviewing accountability of risk owners for major/strategic risks.</li> </ul>	<ul style="list-style-type: none"> <li>• A robust process for managing risk is evidenced by independent assurance from internal audit or external review.</li> </ul>
<b>Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</b>	<ul style="list-style-type: none"> <li>• Reviewing the adequacy of the leadership team's assurance framework.</li> <li>• Specifying the committee's assurance needs, identifying gaps or overlaps in assurance.</li> <li>• Seeking to streamline assurance gathering and reporting.</li> <li>• Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.</li> </ul>	<ul style="list-style-type: none"> <li>• The authority's leadership team have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies.</li> </ul>
<b>Supporting effective external audit, with a focus on high quality and timely audit work.</b>	<ul style="list-style-type: none"> <li>• Reviewing and supporting external audit arrangements with focus on independence and quality.</li> <li>• Providing good engagement on external audit plans and reports.</li> <li>• Supporting the implementation of audit recommendations.</li> </ul>	<ul style="list-style-type: none"> <li>• The quality of liaison between external audit and the authority is satisfactory.</li> <li>• The auditors deliver in accordance with their audit plan, and any amendments are well explained.</li> <li>• An audit of high quality is delivered.</li> </ul>

<p><b>Supporting the quality of the internal audit activity, in particular underpinning its organisational independence.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing the audit charter and functional reporting arrangements.</li> <li>• Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements.</li> <li>• Actively supporting the quality assurance and improvement programme of internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Internal audit that is in conformance with PSIAS and LGAN (as evidenced by the most recent external assessment and an annual self-assessment).</li> <li>• The head of internal audit and the organisation operate in accordance with the principles of the CIPFA <a href="#">Statement on the Role of the Head of Internal Audit</a> (2019).</li> </ul>
<p><b>Aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing how the governance arrangements support the achievement of sustainable outcomes.</li> <li>• Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</li> <li>• Reviewing the effectiveness of performance management arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives.</li> <li>• The authority's arrangements to review and assess performance are satisfactory.</li> </ul>
<p><b>Supporting the development of robust arrangements for ensuring value for money.</b></p>	<ul style="list-style-type: none"> <li>• Ensuring that assurance on value-for-money arrangements is included in the assurances received by the audit committee.</li> <li>• Considering how performance in value for money is evaluated as part of the AGS.</li> <li>• Following up issues raised by external audit in their value-for-money work.</li> </ul>	<ul style="list-style-type: none"> <li>• External audit's assessments of arrangements to support best value are satisfactory.</li> </ul>
<p><b>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing arrangements against the standards set out in the <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (CIPFA, 2014).</li> <li>• Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</li> <li>• Assessing the effectiveness of ethical governance arrangements for both staff and governors.</li> </ul>	<ul style="list-style-type: none"> <li>• Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements.</li> </ul>



**Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.**

- Working with key members/the PCC and chief constable to improve their understanding of the AGS and their contribution to it.
  - Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of 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.
- The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality.
  - The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion.
  - The authority has published its financial statements and AGS in accordance with statutory guidelines.
  - The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements.

## OVERALL QUESTIONS TO CONSIDER

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

## REPORTING RESULTS

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

**WORK PLAN**

COMMITTEE DATE	ITEMS	Author	Responsible Officer
<b>25<sup>th</sup> July 2023</b>			
	Internal Audit update	Lucy Cater	
	External Audit Opinion/Update	Grant Thornton	David Stanley
	Draft Annual Governance Statement	Cheryl Sloan	
	Treasury Management Outturn	David Stanley	
	Audit Committee Effectiveness	Lucy Cater	David Stanley
	Work Plan	Democratic Services	
<b>18<sup>th</sup> October 2023</b>			
	Corporate Risk Register	Cheryl Sloan	
	Local Code of Corporate Governance	Cheryl Sloan	
	CFEU Update Report (RIPA and IPA annual update)	Emma Cathcart	David Stanley
	Internal Audit Progress Report	Lucy Cater	David Stanley
	Work Plan	Democratic Services	
<b>25<sup>th</sup> January 2024</b>			
	Annual Treasury Management Strategy		
	Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2024/25	Michelle Burge	David Stanley
	Annual Capital Strategy 2024/25		
	Work Plan	Democratic Services	
<b>25<sup>th</sup> April 2024</b>			
	Annual Standards Update	Angela Claridge	
	Annual Governance Statement – Action Plan Update	David Stanley	
	Statement of Accounts and Audit Opinion	David Stanley	
	CFEU Update Report (RIPA and IPA annual update)	Emma Cathcart	
	Internal Audit Progress Report	Lucy Cater	
	Internal Audit Plan and Charter	Lucy Cater	
	Work Plan	Democratic Services	

(END)

Other Officer Reports				
CyberSecurity Update	Report / Verbal Update	John Chorlton / Tony Oladejo		January – For Information / to Note
Annual Governance Statement Action Plan	Report / Verbal Update		David Stanley	Quarterly / Half Yearly?
Risk Management Policy		Cheryl Sloan		Approval
Fraud Risk Strategy Update		Emma Cathcart		Annual
RIPA / IPA (Policies x3)		Emma Cathcart		Next due 2023
Proceeds of Crime and Anti Money Laundering Policy		Emma Cathcart		Next due 2024
Counter Fraud and Anti Corruption Policy		Emma Cathcart		Next due 2025
Minutes of Licensing Sub-Committee				Annual - April
Annual Standards Sub-Committee update				Annual - April
External Audit Reports				
Audit Progress Report and Sector Update				Quarterly
Audit Plan				Annual

Audit Findings Post Audit Final Letter of Representation	Presented with Statement of Accounts			Annual
Fee Letter				Annual
Housing Benefit Subsidy Certification (KPMG)		Mandy Fathers		

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