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## AUDIT PANEL

**Day:** Tuesday  
**Date:** 14 March 2023  
**Time:** 2.00 pm  
**Place:** Committee Room 1 - Tameside One

Item No.	AGENDA	Page No
1.	<b>APOLOGIES FOR ABSENCE</b> To receive any apologies for the meeting from Members of the Panel.	
2.	<b>DECLARATIONS OF INTEREST</b> To receive any declarations of interest from Members of the Panel.	
3.	<b>MINUTES</b> The Minutes of the Audit Panel meeting held on 22 November 2022 to be signed by the Chair as a correct record.	1 - 4
4.	<b>CIPFA AUDIT COMMITTEE GUIDANCE</b> To consider a report of the Interim Director of Finance/Interim Head of Risk Management and Audit Services.	5 - 168
5.	<b>STAR PROCUREMENT UPDATE</b> To consider a report of the Director of STAR.	169 - 182
6.	<b>EXTERNAL AUDIT PROGRESS REPORT</b> To consider a report of the Interim Director of Finance.	183 - 194
7.	<b>GMPF EXTERNAL AUDIT STRATEGY MEMORANDUM</b> To consider a report of the Interim Director of Finance.	195 - 226
8.	<b>TREASURY MANAGEMENT STRATEGY 2023/24</b> To consider a report of the Interim Director of Finance.	227 - 256
9.	<b>AUDIT PANEL FORWARD PLAN</b> To consider a report of the Interim Director of Finance/Assistant Director of Finance.	257 - 262
10.	<b>RISK MANAGEMENT AND AUDIT SERVICES PROGRESS REPORT TO DECEMBER 2022</b> To consider a report of the Interim Head of Risk Management and Audit Services.	263 - 276

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From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Louis Garrick, Senior Democratic Services Officer, to whom any apologies for absence should be notified.

Item No.	AGENDA	Page No
11.	<b>INTERNAL AUDIT PLAN 2023/24</b> To consider a report of the Interim Head of Risk Management and Audit Services.	277 - 314
12.	<b>NFI ANNUAL REPORT 2022</b> To consider a report of the Interim Director of Finance/Interim Head of Risk Management and Audit Services.	315 - 368
13.	<b>CORPORATE RISK REGISTER UPDATE MARCH 2023</b> To consider a report of the Interim Director of Finance/Risk, Insurance and Information Governance Manager.	369 - 378
14.	<b>URGENT ITEMS</b> To consider any additional items the Chair is of the opinion shall be dealt with as a matter of urgency.	

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From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Louis Garrick, Senior Democratic Services Officer, to whom any apologies for absence should be notified.

## AUDIT PANEL

22 November 2022

**Commenced:** 14:00

**Terminated:** 14:46

**Present:** Councillors Naylor (Chair), M Smith (Deputy Chair), Kitchen and Billington

**In Attendance:**

Sandra Stewart	Chief Executive
Kathy Roe	Director of Finance
Caroline Barlow	Assistant Director of Finance
Christine Weston	Interim Head of Risk Management and Internal Audit Services
Karen Murray	Mazars

**Apologies for Absence:** Councillors L Boyle, Ryan and Bray

### 11. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 12. MINUTES

The minutes of the Audit Panel meeting on the 26 July 2022 were approved as a correct record.

### 13. REVISED RIPA POLICY

Consideration was given to a report of the Head of Legal. The report was brought to Members for a formal review of the Council's Policy in relation to the Regulation of Investigatory Powers legislation and guidance. The Policy was last amended on 17 April 2019.

It was explained that the Council recently underwent a recent desktop inspection undertaken by the Investigatory Powers Commissioner's Office ['IPCO'] on 28 March 2022. The revised RIPA policy incorporated the recommendations from the inspection.

The proposed revised Policy was attached at Appendix 1 to this report. It built on the Policy previously revised in 2019 and contained information within the above recommendation at Section D, pages 20-22, within the Policy in red. Further changes in red, within the revised Policy followed the updated guidance contained in the IPCO newsletter dated October 2022.

Officers within Directorates should therefore continue to keep under review how investigations were carried out in relation to their specific disciplines and ensure their officers are complying with the requirements around surveillance.

Whilst Elected Members of a local authority should review their authority's use of the RIPA and its policy at least once a year it should be noted that there have however been no requests for authorisation here to use the powers under the RIPA since 2013.

### RESOLVED

- (i) **To consider the attached revised policy and recommend it to Cabinet with any other changes or otherwise as they consider necessary; and**
- (ii) **Agree that Officers across the Council continue to engage in a corporate programme of refresher training led by the Director of Governance and Pensions in relation to the Regulation of Investigatory Powers legislation and guidance.**

#### **14. PROGRESS REPORT ON RISK MANAGEMENT AND AUDIT ACTIVITIES APRIL 2022 TO SEPTEMBER 2022**

Consideration was given to a report of the Interim Head of Risk Management. The report advised Members of the work undertaken by the Risk Management and Audit Service from April 2022 to September 2022 and the proposed revisions to the plan.

It was reported that the Audit Plan approved on 15 March 2022 covered the period April 2022 to March 2023 and totalled 1,207 Days. Appendix 1 showed the progress made against the plan up to the end of September 2022, and the proposed revisions to the plan for the second half of the year. In making the proposed revisions to the plan, Directors and Assistant Directors had been consulted to ensure that their priorities had been taken into account. Further, the proposed revisions ensured that there were sufficient financial system reviews remaining in the plan to enable the service to give the annual assurance required.

The actual days spent up to September were 398, and the service was planning to spend 469 days from October to March 2023. Appendix 1 provided a detailed breakdown for each service area and also the status of the audits and the Level of Assurance given for each audit report issued.

In the period to September 2022, 15 Final Reports were issued, the results of which were summarised in Table 2 below. Two of the reports were consultancy reports so they were not given a level of assurance. Four of the reports were schools, and three were Pension Fund Visits to Employers.

In addition to the Final Reports issued above, nine Draft Reports had been issued for management review and responses and these would be reported to the Panel in due course.

Post Audit Reviews were undertaken approximately six months after the Final Report has been issued, however, where a Low level of assurance was issued the Post Audit Review is scheduled for three months to ensure that the issues identified were addressed. Fourteen Post Audit Reviews had been completed during April 2022 to September 2022. Internal Audit was satisfied with the reasons put forward by management where the recommendations had not yet been fully implemented and there were no significant issues outstanding to report to the Panel.

In regards to irregularities and counter fraud work, the data sets for the National Fraud Initiative (NFI) 2020/21 Exercise were received in February 2021 and the service was currently concluding the investigations in respect of these matches. Table 6 below provided details of the findings to date. Investigations to date had highlighted 37 frauds and 240 errors totalling £195,362, and where appropriate, work was ongoing to recover these amounts.

#### **RESOLVED**

**That the report and the performance of the Service Unit from April 2022 to September 2022 be noted and the proposed revised Plan be approved.**

#### **15. TREASURY MANAGEMENT MID-YEAR**

Consideration was given to a report of the First Deputy (Finance, Resources and Transformation)/Assistant Director of Finance. This report provides a mid-year review of the Council's Treasury Management activities for 2022/23.

It was explained that Treasury Management was a critical activity to ensure Value for Money in the use of public funds. It was concerned with safely managing the working capital of an organisation, managing its cash flows, investments, money markets and banking.

It ensured that public funds work for us, and are safely maximised, without undertaking high-risk investments. It was unrelated to the Revenue Budget of the Council.

This report provides an overview of the Treasury Management activities of the organisation over the first 6 months of the year. At 30 September, the total investment balance was £131m and total long term borrowing was £141m.

The current strategy was designed to ensure that borrowing costs are kept low over the longer term, rather than subject to volatility that a high risk strategy might deliver. Where investments were involved, the policy was to ensure the security of the asset rather than pursue the highest returns available.

Due to borrowing being taken up at a time of favourable interest rates, there had been a forecast saving on the Council's borrowing costs of £0.1m. The Council had been able to take advantage of rising interest rates in year and interest earned on day-to-day investments was forecast to be £1.8m against a budget of £0.3m, an over performance of £1.5m. This additional investment income could now be invested in Council activities.

#### **RESOLVED**

**That Executive Cabinet be recommended to note the treasury activity and performance.**

### **16. ANTI-MONEY LAUNDERING POLICY**

Consideration was given to a report of the Interim Head of Risk Management and Internal Audit Services. The report presented the updated Anti-Money Laundering Policy for review and comment.

Tameside Metropolitan Borough Council was committed to establishing and maintaining effective arrangements to prevent and detect attempts to launder money using Council services. The Council required all members and employees to demonstrate the highest standards of honesty and integrity and this includes compliance with appropriate legislation. The Council was committed to working constructively with the Police and other relevant agencies in relation to combating money laundering and ensuring compliance with the legislation.

This policy provides guidance in order to ensure that the Council's corporate stance on money laundering was being adhered to and the process to be followed to ensure that the Council to comply with its obligations.

### **17. ANNUAL REPORT -NAFN - 2021/22**

Consideration was given to a report of the Assistant Director of Finance. The Annual Report NAFN 2021/22 set out the NAFN Board Membership, Governance and Organisational Structure and the NAFN Service Team. The report also detailed Intake and Trends including Membership Trends and listed the current Membership of NAFN.

#### **RESOLVED**

**That the report be noted.**

### **18. CORPORATE RISK REGISTER REVIEW NOVEMBER 2022**

Consideration was given to a report of the Director of Finance/Risk, Insurance and Information Governance Manager. The report summarised the Corporate Risk Register which was attached to the report at Appendix 1.

The Corporate Risk Register details the risk scores evaluated both in September 2022 and November 2022.

Risk owners (responsible Assistant Directors or Service Unit Managers) had assisted the Risk, Insurance and Information Governance Manager to review the Corporate Risks they had responsibility for. Review comments had been added to the risk register under Appendix 1 alongside each risk.

Ranking of risks across the whole Corporate register had remained largely consistent with the position in September 2022. There were still Red risks in respect of Risk 1 (Medium Term Financial Plan) where Finance were working with Services to mitigate a forecast budget overspend, Risk 8 (Coronavirus impact) where the potential for an Autumn/Winter surge could not be overlooked, and Risk 26 (Cost of Living Crisis) where the multiple impacts of rising budget costs, a possible downturn in Council revenue and increasing public service demand must be managed.

Risks 25 (Recruitment issues) and 26 (Cost of Living Crisis) were considered as having effect on all Council services. Therefore review comments had been prepared following consultation with all Service areas.

The scoring for Risk 3 (Adults – Failure to manage the local care home market) had been increased from 12 to 16 (Red) due to known concerns over the viability of some providers. The number of Red risks had increased to 9 across the whole register, in comparison to 8 in the last quarter. Current risk scores were displayed in the 'heat map' comparisons provided under item 3.5 below.

## **RESOLVED**

**That the Corporate Risk Register attached at Appendix 1 be approved.**

## **19. URGENT ITEMS**

There were no urgent items.

**CHAIR**

# Agenda Item 4.

<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Reporting Officers:</b>	Stuart Fair – Interim Director of Finance Christine Weston–Interim Head of Risk Management and Audit Services
<b>Subject:</b>	<b>CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA) – PRACTICAL GUIDANCE FOR LOCAL AUTHORITY AND POLICE AUDIT COMMITTEES</b>
<b>Report Summary:</b>	To advise members of the publication produced by CIPFA outlining their practical guidance for the operation of Audit Committees.
<b>Recommendations:</b>	Members are asked to note the contents of the report and to review their arrangements against the updated CIPFA guidance and Position Statement.
<b>Links to Corporate Plan:</b>	No direct links but supports the individual operations within the Community Strategy.
<b>Policy Implications:</b>	The Audit Panel is a key component of the Authority's governance framework.
<b>Financial Implications:</b> <b>(Authorised by the Borough Treasurer)</b>	The Audit Panel has oversight of the authority's accountability statements, including the Annual Governance Statement, and the financial reporting and statutory statement of accounts.
<b>Legal Implications:</b> <b>(Authorised by the Borough Solicitor)</b>	<p>The audit committee can support the authority in establishing, maintaining, and improving effective governance, risk management, and internal control arrangements. These arrangements are the enablers that allow the authority to deliver against its objectives and improve its performance. They are essential if the authority is to make best use of all its resources and minimise loss and waste. The audit committee helps the authority to fulfil its responsibilities for accountability to the local community, and meet the expectations of partners, regulators, and other stakeholders.</p> <p>Recommended practice is for audit committees to review and assess themselves annually or to seek an external review. The external auditor will consider the effectiveness of your audit committee when evaluating the authority's governance arrangements. If they have any significant concerns, they will make recommendations for improvement.</p> <p>New guidance issued by CIPFA recommends that local authority and police audit committees include at least two independent members. The Chartered Institute of Public Finance and Accountancy (CIPFA) has recently updated its <u><a href="#">position statement on audit committees in local authorities and police bodies in England and Wales</a></u>, replacing the 2018 version. The 2022 statement, which has been endorsed by the Department for Levelling Up, Housing and Communities and the Home Office, sets out the 'purpose, model, core functions and</p>

membership of the audit committee’.

One notable change compared to the 2018 edition is the removal of suggestions that audit committees undertake a wider role in supporting authorities, such as by reviewing treasury management arrangements or supporting the work of other committees. This addresses concerns raised in Sir Tony Redmond’s 2020 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting about the broad role of some local authority audit committees distracting them from their core financial oversight role and potentially creating conflicts of interest.

Other new recommendations to strengthen audit committees in the updated position statement include:

- Audit committee members should be trained to fulfil their role.
- Large committees should be avoided.
- The committees should support the maintenance of effective arrangements for financial reporting.

Standards Committee approved the process for appointments and these are underway.

**Risk Management:**

The Audit Panel considers and monitors the effectiveness of the Authority’s risk management arrangements.

**Access to Information:**

The background papers can be obtained from the author of the report, Christine Weston, Interim Head of Risk Management and Audit Services by contacting:



Telephone: 0161 342 2356



e-mail: [christine.weston@tameside.gov.uk](mailto:christine.weston@tameside.gov.uk)



## 1. BACKGROUND

- 1.1. The Audit Panel is the committee of Tameside Council that undertakes the role of the Audit Committee.
- 1.2. Audit committees provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. This gives greater confidence to all those charged with governance that those arrangements are effective.
- 1.3. The Chartered Institute of Public Finance and Accountancy (CIPFA) expects that the Audit Panel should make their best efforts to adopt the principles laid out in their guidance attached at **Appendices 1 to 5**. This will enable the panel to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

## 2. CIPFA GUIDANCE AND THE ROLE OF THE AUDIT COMMITTEE

### 2.1. CIPFA states that the Audit Panel should:

- be independent of executive decision making and the scrutiny functions, and able to provide objective oversight;
- be directly accountable to the governing body of the authority;
- have rights of access to and constructive engagement with other committees/functions (e.g. scrutiny and service committees, corporate risk management boards and other strategic groups);
- have rights to request reports and seek assurances from relevant officers; and
- be of an appropriate size to operate as a core of experienced, trained committee members.

### 2.2. CIPFA outline the following as specific responsibilities of the Audit Panel:

- Support a comprehensive understanding of governance across the council and among all those charged with 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.
- 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.

- 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 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 provider of assurance, audits and inspection, and the organisation, encouraging openness to challenge, review and accountability.

2.3. To discharge its responsibilities effectively, CIPFA recommends the Audit Panel:

- Meet regularly, at least four times a year, and have a clear policy on items to be considered in public and those to be considered in private.
- Be able to meet privately and separately with the external auditor and Head of Internal Audit.
- Include, as regular attendees, the Chief Finance Officer, the Chief Executive, the Head of Internal Audit and the appointed external auditor.
- 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. This report should be available to the public.
- Include at least two co-opted independent members on the Panel

2.4. 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. **Two interactive appendices have been provided for the Audit Panel to carry out a self-assessment which may be used to evaluate its impact and identify areas for improvement.**

### 3. RECOMMENDATIONS

3.1 As set out on the front of the report.

## 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

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.

# Guiding the audit committee

Supplement to the audit  
committee member guidance

2022 edition

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# Introduction

This section is aimed at officers responsible for guiding the audit committee. It will also be a useful reference guide for an audit committee member wanting to develop greater understanding of the committee's role or access additional resources.

It identifies the underpinning legislation, regulations, guidance or resources that the committee should be referencing in its operations.

It is a supplement to the guides *Audit committee member in a local authority* and the *Police audit committee member* and should be read in conjunction with the appropriate guide. It includes information for both authorities and police bodies.



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# Core functions of the audit committee

## MAINTENANCE OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

### Good governance

*Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016) is principles based and informs the approach to good governance adopted by police, local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles in practice.

CIPFA's **Financial Management Code** (FM Code) also attributes responsibility for the Framework to the authority's leadership team. This supports the principle of assurance in the FM Code.

Other useful resources for evaluating governance and identifying governance risks include the research resource co-ordinated by the Centre for Governance and Scrutiny, **The governance risk and resilience framework**. This sets out the risks to good governance and can be used as part of the evaluation process for the annual governance statement (AGS) or as part of other governance development work. Further information on the AGS is included in **Accountability and the annual report**.

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 of the mechanisms an authority should have in place to identify, escalate and oversee the improvement of any governance weaknesses.

In Wales, the **Local Government and Elections (Wales) Act 2021** provides for intervention by Welsh ministers to increase the extent to which a council is meeting the performance requirements.

#### Key references

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

- **Delivering Good Governance in Local Government: Guidance Notes for English Authorities**
- **Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities**
- **Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities**
- **Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales**

Accounts and audit regulations (various according to location in the UK)

*The governance risk and resilience framework* (Centre for Governance and Scrutiny, 2021)

## Ethical values

As part of the annual governance review, the audit committee should consider how effectively the **Seven Principles of Public Life** are supported and whether the arrangements in place to achieve Principle A of the governance framework are fit for purpose:

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

Authorities have a standards committee to oversee member conduct and review complaints. This is not a function of the audit committee and combining the two committees should be avoided.

The standards framework for elected members in England was established by the **Localism Act 2011**. English local authorities have a statutory duty to promote and maintain high standards of conduct, and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. The Committee on Standards in Public Life last reviewed standards in local government in 2019. The report recommended some amendments to the Act, but in its 2022 response, the Department for Levelling Up, Housing and Communities (DLUHC) did not commit to these. This remains an active topic that the audit committee should be aware of, and it should understand the steps its authority is taking to promote and ensure good ethical arrangements are in place.

The **Public Sector Internal Audit Standards** (PSIAS) include the ethical framework as a specific area of governance for internal audit work.

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

### Useful resources

**Upholding Standards in Public Life** (Committee on Standards in Public Life, 2021)

## Risk management

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be considered in determining the role of the audit committee.

Police audit committees are directed in the **Financial Management Code of Practice for the Police Forces of England and Wales** (FMCP) (Home Office, 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements.

Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

## Internal controls

Internal control arrangements will be informed by service requirements and guidance specific to individual areas.

## Financial management

Regarding financial management arrangements, CIPFA's FM Code is a helpful resource to guide and evaluate the adequacy of financial management. The results of the assessment should be shared with the audit committee.

Audit committees in local authorities in Wales and in combined authorities are required to review and scrutinise the authority's financial affairs. Robust arrangements for financial control, understanding financial risks and longer-term financial planning will provide assurance to the committee. The review of financial statements also supports this objective. Care should be taken to not overlap with financial scrutiny. Tasks such as budget monitoring should not be undertaken by the committee.

## Value for money and best value arrangements

Making best use of resources is a key objective for all local authorities and is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is "delivering defined outcomes on a sustainable basis within the resources that will be available." When the AGS is prepared, the adequacy and effectiveness of arrangements to secure value for money (VfM) should be included, as per CIPFA guidance.

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

- **England:** statutory value for money commentary as defined by the [National Audit Office](#).
- **Scotland:** periodic reviews of best value from [Audit Scotland](#).
- **Wales:** annual improvement reports from [Audit Wales](#).
- **Northern Ireland:** a review of arrangements for the use of resources from [Northern Ireland Audit Office](#).

When the external auditor raises concerns about VfM, the audit committee should ensure there is a robust action plan to address the issues raised. A significant VfM failing is likely to lead to a formal recommendation or report in the public interest. In addition to the work of the auditor, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

The [Cities and Local Government Devolution Act 2016](#) requires the audit committee of a combined authority to review and assess the economy, efficiency and effectiveness of resource use in discharging the authority's functions. By reviewing the adequacy of the authority's arrangements, including aspects such as performance management, financial planning and procurement, the audit committee will be able to report and make recommendations to fulfil this responsibility. Where risks to value for money are identified to the audit committee – for example, through the work of internal audit – those concerns need to be escalated for management action.

## Countering fraud and corruption

The audit committee should include counter fraud and corruption within its agenda. This should not be limited to an update to the committee on a significant case of fraud or corruption. The audit committee's responsibility to have oversight of arrangements means that they should be able to judge whether the authority's arrangements are fit for purpose

CIPFA's [Code of Practice on Managing the Risk of Fraud and Corruption](#) (2014) sets out the counter fraud standards for public sector organisations. Sector-specific strategies such as [fighting fraud and corruption locally](#) should also be considered, along with [Integrity matters](#)

(HMICFRS, 2015). The committee should understand the level of fraud risk the authority is exposed to and the implications for the wider control environment.

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

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

### **Partnership governance, collaborations and subsidiaries**

Ensuring that the audit committee has oversight of significant collaboration arrangements or the governance arrangements for the authority's partnerships is important. This is an area of assurance that should be planned as new arrangements are established as well as considered regularly.

Guidance is available in CIPFA publications, including **Successful Collaborations in the Public Services: The Role of Internal Audit** (2021). This highlights some of the governance risks that should be considered in collaborative arrangements, together with the role of internal audit. It highlights the need for the audit committee's oversight of internal audit to extend to their work on collaborations.

CIPFA's **Effective Governance of Collaboration in Policing** (2021) provides an overview of the nature of collaborations in policing and guidance on governance for those arrangements, and other relevant guidance is included in **Principles for section 151 officers working with LEPs** (2018).

Recently, authorities that have the general power of competence have established trading companies to operate more commercial activities, including delivery of services and commercial investments. Some authorities have experienced difficulties with these activities, so the governance, oversight and risk management arrangements in them are likely to be of considerable interest to the audit committee. CIPFA has issued new guidance in 2022 in **Local Authority Owned Companies: A Good Practice Guide**.

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

## FINANCIAL AND GOVERNANCE REPORTING

### Financial reporting

Local authority financial statements should follow the professional practices set down in the **Code of Practice on Local Authority Accounting in the United Kingdom** (CIPFA/LASAAC). The responsible financial officer is required by statutory provision to sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. These are the unaudited accounts. Currently, deadlines are subject to change because of the COVID-19 pandemic (and because of difficulties resourcing local audit in England). Therefore, it will be important to check the current regulations applicable.

At the time of publication, the latest regulations were as follows.

- In England, **The Accounts and Audit (Amendment) Regulations 2021**. This amends the Accounts and Audit Regulations 2015.
- In Wales, **The Accounts and Audit (Wales) (Amendment) Regulations 2018**. This amends the Accounts and Audit (Wales) Regulations 2014.
- In Scotland, **The Local Authority Accounts (Scotland) Regulations 2014**.
- In Northern Ireland, **The Local Government (Accounts and Audit) (Coronavirus) (Amendment) Regulations (Northern Ireland) 2020**. This amends the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

Further details about the requirements of the regulations are in Appendix A.

Prior to the current period of disruption, there had been a trend to reduce the elapsed time from the end of the financial year to the publication of audited statements. For example, under the 2015 regulations for English authorities and policing bodies, in practice, the latest date by which the statements would need to be confirmed (by the responsible finance officer) is 31 May, as the 30 working day period for the exercise of public rights must include the first ten days of June. In CIPFA's view, the timely availability of the statements is important for transparency and accountability.

Under the regulations, Scottish and Northern Irish authorities must all ensure that the financial statements are signed off by the chief financial officer (CFO) by 30 June. The Accounts and Audit (Wales) (Amendment) Regulations 2018 require preparation and publication to be completed by 15 June. Authorities have had flexibility to delay due to COVID-19, but deadlines will revert to those specified in regulations at an appropriate point.

CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit. The committee will also review them at the completion of the audit prior to publication. Authorities will formally approve the financial statements after the completion of the external audit.

The date the statements must be published by is set down in government regulations. Prior to COVID-related amendments, the latest date for publication was 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September, and Northern Irish authorities must publish by 31 October. These dates are intended to reflect the target for the completion of the audit. However, meeting the deadline is not a statutory requirement for the auditor; auditors will aim to meet this date, but their primary concern is to complete the audit to the required auditing standard.

The financial statements are the most technical aspect of the audit committee's remit and one that can be daunting for those elected members with no prior experience of financial reporting or

external audit. The differences in financial reporting practice in the accounts can also be daunting for those used to the presentation of company accounts. Additional attention should therefore be paid to this area when evaluating training needs.

## Annual governance statements

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

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. These are set out in **Financial reporting** and in more detail in Appendix A. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

When the AGS is taken to the audit committee for review, it provides an opportunity to sense check the content, ensuring it is consistent with other information and is understandable to a lay reader.

The audit committee should be made aware of any updates to guidance on the AGS issued by CIPFA.

In March 2022, CIPFA's Practice Oversight Panel published an **advisory note on governance**. The note emphasises the importance of ensuring that annual reviews of governance and the AGS are robust. An effective audit committee is one important aspect of ensuring adequate internal challenge.

## Other accountability reports

The audit committee may be asked to comment on or review other accountability reports. If this is consistent with the purpose of the committee, then it may be appropriate – for example, if the report included extracts from the financial statements or AGS. It should always be clear whether the committee is being asked to formally endorse any report and consider whether this involves duplication with the work of other committees.

## SUPPORTING ARRANGEMENTS FOR AUDIT AND ASSURANCE

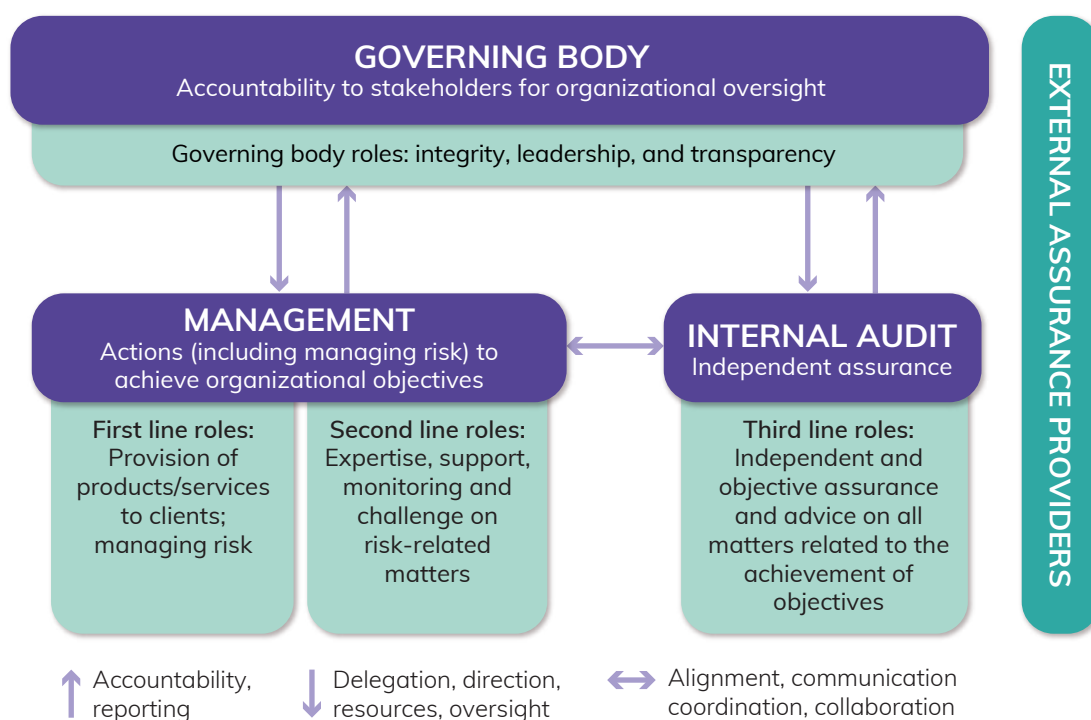
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### Assurance frameworks and assurance planning

The organisation's leadership team should establish arrangements to provide them with assurance. The purpose of assurance is to provide greater certainty over the operation of internal control arrangements and the implementation of policies and decisions. In practice, an organisation will have a range of different means of obtaining assurance, some of which will already be embedded in management arrangements. Taken together, the suite of assurances forms the framework of assurance for the organisation. Some organisations have taken steps to map or summarise their arrangements in diagrammatic or tabular form.

CIPFA is in the process of establishing more detailed guidance for leadership teams on assurance frameworks, including high-level principles to define assurance frameworks. The purpose of this will be to raise awareness of assurance and the different forms it can take. Developing CIPFA guidance will include the **Three Lines Model** developed by the Institute of Internal Auditors (IIA).

Figure 1: The IIA's Three Lines Model



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Having a good understanding of different sources of assurance is important:

- for managers and the leadership team, to have confidence in how things work in practice
- for the audit committee, to help them fulfil their responsibilities
- for internal auditors, to inform risk assessments, supplement the direct independent audit work the team undertakes, and to inform the head of internal audit's annual opinion.

As well as understanding the organisation's arrangements for obtaining assurance, the audit committee should ensure that it receives the assurances necessary to support its annual report and to play its part in reviewing the AGS. While internal audit and external audit will be significant contributors to the overall assurance, the committee will need to be proactive in specifying additional areas where assurance is needed.

## External audit

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

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

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

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel, which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel as defined in regulations supporting the 2014 Act, then the committee 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.

## Supporting independence

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

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

### Understanding the potential threats to external independence

#### Self-interest threat

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

#### Self-review threat

This is where the audit could include a review of work performed or services or advice provided by the same firm or team.

#### Management threat

This is where the auditor has become involved in or associated with decision making at the audited body.

#### Advocacy threat

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

#### Familiarity (or trust) threat

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

#### Intimidation threat

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

Full details of the threats are set out in the [Revised Ethical Standard 2019](#) (FRC).



## Receiving and considering the work of external audit

The timetable of external audit work will be shaped by the appropriate Code of Audit Practice under which the audit is being undertaken and the appropriate regulations of the nation.

From time to time, there may be disruption to the routine timetable of audit. For example, the impact of the pandemic and recent difficulties experienced in England by local audit firms have contributed to delays. Where this is the case, the audit committee should actively monitor changes to timetables and audit plans, supporting good communication between the auditor and the authority to manage difficulties in the best possible way. Those officers responsible for liaising with the external auditor should ensure the audit committee is kept informed and any difficulties drawn to their attention at an appropriate stage.

One of the recommendations of the Redmond Review ([Independent review into the oversight of local audit and the transparency of local authority financial reporting](#)) was that the external audit annual report should be submitted to full council by the external auditor. The rationale behind the recommendation was that there were examples where serious issues raised with the audit committee by the external auditor were not then escalated to full council. As all councillors are “charged with governance”, they should be aware of serious issues and the overall results of the audit.

In addition, full council is more visible to the public than the audit committee, so it supports greater transparency. When this recommendation was considered by the stakeholder group advising DLUHC, it was considered important for the audit committee to receive the external auditor’s reports, allowing more in-depth discussion and formulation of recommendations for action in response to issues raised. It suggested that the annual report should be presented to full council in the way suggested by Sir Tony to improve transparency and strengthen the governance response, but it should also be accompanied by a report from the audit committee setting out its suggested response to the report. This was discussed in the technical consultation issued in July 2021 and CIPFA would support this approach.

Although the specific recommendation related to English local authorities, CIPFA would recommend that authorities in the rest of the UK also consider adopting a similar approach, if they do not do so already.

## Supporting the quality and effectiveness of the external audit process

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

- at the planning stage, understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- during the external audit process, including:
  - assessing whether the external auditor has a good understanding of the authority
  - how the external auditor has responded to areas of audit risk
  - actions taken to safeguard independence and objectivity
- at the reporting and finalisation stages:
  - ensuring there is feedback from key people such as the CFO and the head of internal audit on the conduct of the audit
  - supporting the auditor’s annual report to the full council, PCC, chief constable or other body as appropriate on the results of its considerations with the audit committee report.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit – for example, the quality reports from the FRC and contract monitoring reports from PSAA. Links to useful resources are provided at the end of the section.

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

### Supporting audit quality

The audit committee should be an advocate for high audit quality. Ensuring that quality is maintained provides confidence in the audit opinion and recommendations. In its interactions with the auditors, the committee should be alert to the culture of the auditor and its regard for quality, its customer focus and how the firm creates a positive audit culture. The FRC's recent report [What Makes a Good Audit?](#) (2021) highlights the importance of governance and leadership in the audit firm.

*Senior leadership must live and drive the right values, ethics and behaviours that support high audit quality throughout the firm. There must be a clear link between remuneration/ promotion and audit quality. Learning from audit inspections (internal and external) must be shared across the audit practice and understood, including the sharing of good practice identified within the firm or from external reviews. There must also be an emphasis on the public interest role of audit. At the larger firms, Independent Non-Executives (INEs) already have an important role to play in holding leadership to account for improving audit quality and for driving an appropriate culture and mindset within audit.*

What Makes a Good Audit? (FRC, 2021)

The committee should ask about the auditor's approach to audit quality, including the support and training provided to the team on specialist areas within the scope of the audit. This is a particular consideration in England where audits are undertaken by a firm, as the team may not consist of auditors with extensive local audit experience. It should be noted that the key audit partner must have that experience and knowledge. This was an issue raised by the Redmond Review, and work to improve and support auditors is ongoing. For the firms, achieving improvements in this area is challenging, given wider issues around shortages of appropriate skilled auditors.

The audit committee needs to work with auditors and key officers to ensure that there is a shared understanding of objectives, expectations and outcomes from the audit. It is likely that the committee members will need support and training to improve their knowledge and understanding in this area unless they have had prior experience.

Where there are difficulties in the relationship between auditor and client, the audit committee should seek to support and resolve in an objective way that helps the delivery of a quality and timely audit.

### Assessing audit quality

In determining the committee's role in reporting on external audit, CIPFA has taken account of requirements in other sectors. The [UK Corporate Governance Code](#) (FRC, 2018) expects the audit committee to report annually on its assessment of the independence and effectiveness of external audit. The audit committee annual report should also include a section on external audit. This is addressed in [Independence and accountability](#).

The FRC published [Audit Quality: Practice Aid for Audit Committees](#) in 2019 to help support audit committees. It should be noted that this is not tailored to audit committees in local

government, but some general principles remain relevant for an authority committee. Suggested good practice would be to consider the following areas:

- How the auditor interacts with the audit committee. Examples could include how auditors respond to questions or challenge from the committee and whether communications are open, constructive, informative and regular.
- Evidence from management. For example, the audit committee could ask management for evidence where auditors have challenged judgements and estimates.
- Asking auditors how they have demonstrated professional scepticism.
- Considering how well the auditor has met the agreed audit plan and addressed the risks it has identified.
- The quality of the audit report. For example, is it helpful and does it avoid generic 'boiler plate' content?

The audit committee should also review reports and assessments on their contracted auditor. The national audit bodies publish external reviews of their quality arrangements, and the FRC publishes an annual report of the local audit quality reviews undertaken for each firm. The committee should consider the conclusions on audit quality and areas for improvement and discuss with the auditor if appropriate. In England, PSAA may also publish reviews of interest to the committee on their monitoring of the audit contracts and satisfaction surveys, etc.

#### References and useful resources

[Financial audit quality arrangements](#) (Audit Wales)

[Major Local Audits: Audit Quality Inspection](#) (FRC, 2021)

[Managing audit quality](#) (PSAA)

[Quality of public audit in Scotland annual report 2021/22](#) (Audit Scotland)

[Quality assurance review 2021 executive summary](#) (Northern Ireland Audit Office)

## Internal audit

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS, and for local government bodies, the [Local Government Application Note \(LGAN\) for the UK PSIAS](#) (CIPFA, 2019). All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, the Accounts and Audit (Wales) Regulations 2014, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the mission of internal audit, code of ethics, definition of internal auditing and the core principles for the professional practice of internal auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board usually

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

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

The **CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations** (2019) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service. For the head of internal audit to operate an effective internal audit arrangement, the authority has a responsibility to ensure that they can operate effectively and perform their core duties. This responsibility exists regardless of the method of delivery of internal audit, whether in-house, outsourced or through some form of shared arrangement. The audit committee plays an important role in supporting the effectiveness of those arrangements in accordance with the CIPFA statement.

The committee should develop sufficient understanding of the effectiveness of internal audit and its adherence to professional standards. While helping to ensure that the right organisational arrangements are in place to support the internal audit service, the committee should also hold internal audit to account for the following:

- Conformance with professional standards.
- Effective management of resources.
- Focus on risks and assurance needs.
- Delivery of required outputs.
- Impact.

In 2022, CIPFA published **Internal audit: untapped potential** – a research report examining how internal audit supports public sector organisations and opportunities for the future. It features the results of an extensive survey that included management clients and audit committee members, as well as internal auditors. Included within are recommended topics that audit committee members should consider and discuss with their head of internal audit to help ensure that their organisation is getting the best out of internal audit.

# Guiding the audit committee – wider functions

## WIDENING THE WORK OF THE COMMITTEE

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This chapter sets out relevant guidance where additional responsibilities are brought within the scope of the committee. The scope should not be extended so broadly that the committee effectively becomes a joint committee with other priorities. The areas covered in the guidance are relevant as a result of legislation or other standards.

## WALES

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Governance and audit committees in Wales will need to have regard to the Local Government and Elections Wales Act 2021 in agreeing their terms of reference and conducting business.

The significant difference is the requirement to review the draft self-assessment or panel assessment report and make recommendations. The performance assessments are a new requirement introduced by the 2021 Act. Statutory guidance has been produced in **Performance and governance of principal councils** (2021).

In undertaking this role, CIPFA recommends distinguishing between the committee and the performance monitoring that scrutiny committees will have undertaken, which will be a contributory part of the self-assessment.

To enable the committee to perform its role effectively, members will need to be briefed on the requirements of the Act and supporting statutory guidance.

## TREASURY MANAGEMENT

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CIPFA's **Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes** (2021) requires all local authorities to adopt four clauses defining responsibilities for treasury management.

It is possible for the audit committee to be nominated to undertake the scrutiny role.

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

Where the audit committee has been nominated, 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. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Treasury Management Code clauses, as these are executive and decision-making roles rather than a scrutiny role.

Treasury management is a specialist area, so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C, and these can be used to support a training needs assessment and to plan development.

## SUPPORTING CORPORATE IMPROVEMENT PROGRAMMES

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Where an authority has undergone an external inspection, peer review or other intervention, an improvement programme will be developed. It will be important for the audit committee to play its part in supporting the effective implementation of agreed actions.

The primary role of the committee is to receive assurances that implementation of the programme is on track. The programme will have links to external audit reports, future audit risk assessments and the AGS, so it is important that the committee is aware of the overall progress. A significant programme may have a dedicated board that can provide an update to the committee to fulfil its assurance needs.

There may be aspects of the programme that directly link to the work of the committee – for example, the adequacy of financial management arrangements or internal audit. In such cases, the committee may be more actively involved in monitoring progress.

# Independence and accountability

## INTRODUCTION

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

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

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

- Any statutory guidance applicable to the sector.
- Independence from the executive and political allegiances.
- How the structure of the committee can support its effective operation.

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

## SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

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

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

Audit committees in Wales have a clear statutory role established by the **Local Government (Wales) Measure 2011** and updated in the **Local Government and Elections (Wales) Act 2021**. The Welsh Government has provided statutory guidance on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance.

The Cities and Local Government Devolution Act 2016 requires combined authorities to establish an audit committee where at least one member must be appointed as an independent member.

The Home Office's **Financial Management Code of Practice for the Police Forces of England and Wales** (the FMCP) (2018) requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole. **Page 37**

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

Those supporting audit committees should be aware of other regulations, including the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland. These regulate functions such as internal audit and the timing of the AGS review and the accounts. These functions should be undertaken by the audit committee, and the committee should have regard to the regulations.

## STRUCTURE AND INDEPENDENCE

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### Ensuring a dedicated audit committee

In some local authorities, the audit committee has been combined with other committees. CIPFA recommends that the audit committee should have no other functions, and explicitly no decision-making role. The most common combinations adopted by authorities have been an audit and scrutiny committee or audit and standards committee. CIPFA recommends these are separated.

Sometimes the audit committee is given a different title, such as 'governance and audit' or 'audit and risk' committee. This would not be a problem if the terms of reference are consistent with the **CIPFA Position Statement**. Care should be taken to not delegate additional responsibilities that conflict with or dilute the audit committee focus.

The Centre for Governance and Scrutiny published **Audit committees and scrutiny committees: working together** (2021) to help understand the difference between scrutiny and audit committees. CIPFA contributed to the resource to help ensure it was consistent with its 2018 guidance on audit committees. It helps scrutiny members understand how the audit committee role is different but complementary and identifies opportunities for the committees to work constructively together.

### Committee size

Police audit committees should follow the FMCP guidance on a committee size of three to five members. In determining size, consider the quorum for meetings, as three allows little flexibility for meeting quorum at every scheduled meeting.

The sections on **Membership** and **Accountability** cover the composition of the committee between elected members and co-opted independents in an authority.

Committee size and composition are subject to legislation in some local authorities but not all.

Appendix A sets out the legislation for Wales and combined authorities in England.

In sectors outside local government, it is typical for audit committees to have fewer than six members. Among local authorities, there is a range of practice, including some committees that exceed ten members. In the sector, it can be harder to achieve the depth of knowledge and experience that is desirable with a small number, but equally it can be difficult to provide training and development for a large group.

CIPFA's recommendation is that a committee size of no more than eight members should be established. This allows sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.



CIPFA also recommends that the use of substitutes on the committee is avoided. Substitute members are less likely to have received relevant training. It also disrupts the continuity of the committee, where committee members can build on information received in previous meetings. We have found that where committee members are regularly substituted, it is an indication of lack of engagement with the committee's purpose and agenda.

### Audit committees for collaborations

Where an authority has a significant level of joint or collaborative working, there may be some value in considering the constitution of a shared audit committee. This will be particularly appropriate if there is a shared management team and single functions for finance, audit and risk management. There will need to be a formal agreement that sets out how the balance of representation between the partners will be decided, reporting lines and how the chair will be selected.

### Delegated decision making and voting rights

Currently, some authorities have delegated decisions such as the approval of the financial statements to the audit committee. This takes the audit committee beyond its advisory role. It also means that authorities will need to have regard to Section 13 of the **Local Government and Housing Act 1989**, which relates to the voting rights of non-elected committee members. Independent members cannot vote on matters for decision, whereas making recommendations to another decision-making body would not be impacted.

CIPFA recommends that the audit committee remains an advisory committee and does not have delegated powers.

## ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

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In planning the number and timing of meetings and the committee agendas, key dates in the reporting and audit cycle will be important. In addition, the need for the committee to meet the expectations of auditing standards (both internal and external audit) in providing appropriate oversight will mean space on agendas should be found for these topics.

The CIPFA *Statement on the Role of the Head of Internal Audit in Public Service Organisations* (2019) emphasises the importance of organisational support for the role, including direct reporting lines to the audit committee and good engagement between the committee and head of internal audit. Providing the facility for private meetings between the head of internal audit and the audit committee will signal the importance of maintaining the independence of internal audit.

While private meetings between the committee and internal and external audit help to build a trusted relationship, those concerned should always make sure that the meeting is not used as a substitute for escalating governance concerns with responsible officers. The private meeting should always be in accordance with other principles of good practice – non-political and supporting transparent and accountable good governance.

Ensuring there is good support for the committee in agenda planning, minute taking, guidance and communications will help to build member confidence in the committee.

Providing a protocol about access to information that includes provision for co-opted independents will help to ensure clarity for both the committee members and officers. Members need to be confident that they have sight of relevant information in a timely way. There may be operational reasons why information is not immediately available or has to be treated in confidence, but it is important to explain this adequately.

## ACCOUNTABILITY AND THE ANNUAL REPORT

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CIPFA has recommended that the audit committee should produce an annual report since the 2013 edition of this guidance. In this latest edition, the annual report is given greater prominence and has been included in the Position Statement. The report should be used to provide accountability to those charged with governance on compliance with the Position Statement and performance and provide assurance over the areas within its terms of reference.

The timing of the report will need to take account of whether there will be changes in committee membership – for example, because of elections or rotation of committee members at annual meetings. The conclusions of the report can support the AGS.

It is for the committee chair to prepare the annual report in consultation with the members, although some support may be required to check accuracy or provide supporting information. Developing the report will ensure the committee is better placed for any future policy developments that might expect more from accountability disclosures.

# Membership and effectiveness

## COMPOSITION AND OPERATION OF THE COMMITTEE

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The composition of the committee will be one of the key factors in achieving a good audit committee. Some local government bodies will need to follow specific rules on composition. These are referenced below.

The composition of the audit committee for Welsh local authorities is determined by the Local Government and Elections (Wales) Act 2021, which requires local authority audit committees to have one-third lay members and a lay member as chair. The 2021 Act amended the Local Government Measure 2011, which established that only one of the committee's members may be from the council's executive, and this must not be the leader or the elected mayor.

Combined authorities in England are required to establish an audit committee by the Cities and Local Government Devolution Act 2016. The Act and the subsequent **Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017** require combined authority audit committees to include at least one independent member. The definition of independent is set out in Part 4 of the Order.

The FMCP determined that audit committees in policing must be composed solely of independent members.

## POLITICAL BALANCE

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One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. Any audit committee that is a properly constituted committee of a local authority will need to abide by the rules concerning political balance, as outlined in Section 15 of the Local Government and Housing Act 1989. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

The **Local Government (Democracy) (Wales) Act 2013** inserted a requirement into the 2011 Measure for the audit committee to be politically balanced. This has not changed as a result of the 2021 Act.

The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 requires the audit committee to be politically balanced, taking into account the constituent councils.

Where the committee is strictly advisory and not subject to other requirements, full council can vote to waive the political balance requirement and specify other criteria to decide who should serve on the committee. For example, the selection of members with relevant knowledge and expertise could be prioritised.

The length of tenure of an elected representative on the committee will be influenced by the need to maintain political balance (if applicable) as well as other factors. In principle, establishing continuity on the committee is helpful to make the best of knowledge and experience. Some

rotation is also helpful to bring in a new perspective. CIPFA would suggest that two full terms on the committee would be a reasonable maximum.

## APPOINTING THE CHAIR OF THE COMMITTEE

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Unless there is specific legislation or guidance in place on the selection of the committee chair, authorities can determine their own approach. To try and emphasise the independence and apolitical nature of the committee, some authorities specify that the position should be occupied by an 'opposition' member. This approach may be appropriate for some but will not be possible for all authorities – for example, where there are few opposition members.

## CO-OPTED INDEPENDENTS

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### Definition of a co-opted independent or lay member

There are some definitions set out in legislation for some audit committees but not all.

The Local Government and Elections (Wales) Act 2021 defines a lay member as a person who:

- is not a member or an officer of any local authority
- has not been a member or an officer of any local authority in the last 12 months
- is not the spouse or civil partner of a member or officer.

Co-opted independent members of audit committees for combined authorities should be in accordance with the 2017 Order as follows.

- Not a member, co-opted member or officer of the authority.
- Not a member, co-opted member or officer of a parish council in the area of the principal authority.
- Not a relative or close friend of one of the above.
- Not a member, co-opted member or officer of the authority or parish council in the last five years.

There are no statutory definitions of 'independent' for audit committee members in local authorities in England, Scotland or Northern Ireland.

The independent members of the police audit committees in England and Wales must all be independent of the PCC and the force. The FMCP does not define this any further.

Where there is no established definition, authorities are recommended to establish their own policy before commencing recruitment. This will provide clarity to potential candidates and support the independence of the committee. CIPFA would suggest alignment to the combined authority requirements as the basis for a suitable policy.

As long as any requirements are met, it is possible for an individual to be a co-opted member of more than one local government body.

## MAKING BEST USE OF INDEPENDENT MEMBERS

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

- Over-reliance on the independent members by other committee members in local authorities can lead to a lack of engagement across the full committee.
- A lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports.
- Both independent members and officers/staff must try to establish an effective working relationship and appropriate protocols for briefings and access to information.

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

### Role descriptions for co-opted independent members

Where the authority is recruiting members to co-opt onto the audit committee, a clear role description should be established. The following areas should be addressed:

- The role of the co-opted independent, including expected time commitment and location of meetings.
- The suggested appointment period and options for renewal (two terms would be a suggested maximum appointment period).
- The definition of 'independent' applicable to the role.
- Any restrictions or conflicts of interest that would make a candidate unsuitable. As the role is non-political and requires working with elected representatives in a local authority, it is recommended that candidates should not be political party members.
- Vetting requirements (particularly for police committee members).
- Desired knowledge, experience and skills.
- Remuneration and expenses.
- The expected conditions of engagement, including adherence to the authority's code of conduct, disclosure of interests, etc.

Consideration should also be given to attracting suitable candidates. While it is up to each authority to decide, authorities may want to consider the following:

- Selecting candidates beyond the local area. If candidates are able and willing to travel to attend the required meetings and supporting activities, then living outside the authority area should not be a barrier to suitability.
- Working with other authorities in the region to promote and support opportunities to be an independent member.
- Advertising nationally or using specialist agencies if professional knowledge and skills are required.
- Promoting the role through means in addition to advertising. For example, a change to the constitution of the audit committee could be part of a wider governance improvement programme that could be publicised locally or through council channels of communication.
- Council orientation and support that will be provided in the role.

- The opportunity for an informal discussion on the role with a senior officer or committee chair.
- Ensuring an easy application process (see below).

Under the combined authorities order, the vacancy must be publicly advertised.

## Selection process

The authority's HR team will be able to advise on the process for recruitment. Normal practice in recruitment for non-executive roles such as this will be a CV and supporting letter, and adopting this approach may assist in attracting candidates. This may be a deviation from the process of recruiting a member of staff, however, so early discussion with HR is advised.

The format of selection is for the authority to decide, but inclusion of the current committee chair in some way would be helpful for the candidate.

As well as a formal interview, candidates could be invited to meet the PCC, chief constable or deputy chief constable, senior councillors or officers to emphasise the value of the committee.

## Supporting members of the committee

Establishing a training programme and ongoing support for committee members is essential to ensure that they can confidently and effectively discharge their responsibilities. Establishing a budget will ensure that training can be ongoing rather than ad hoc.

Exact needs will depend on the composition of the committee and members' existing knowledge and experience. The following table sets out the core elements.

Development area	Core content	Target audience
<b>Induction – the authority</b>	<p>Introduction to the authority, including:</p> <ul style="list-style-type: none"> <li>• governance structures</li> <li>• plans, strategies and priorities of the authority</li> <li>• local government context.</li> </ul>	Primarily for co-opted independent members who are new to local government/police.
<b>Induction – the audit committee</b>	<ul style="list-style-type: none"> <li>• Terms of reference.</li> <li>• CIPFA Position Statement and guidance.</li> <li>• Key relationships – CFO, head of internal audit, external auditor, committee support.</li> </ul>	All members new to the committee.
<b>Core knowledge areas</b>	<p>Basic knowledge for all areas outlined in the knowledge framework.</p> <ul style="list-style-type: none"> <li>• Good governance and ethical framework</li> <li>• Risk management</li> <li>• Internal controls</li> <li>• Financial management</li> <li>• Value for money</li> <li>• Counter fraud and corruption</li> <li>• Partnerships and collaborations</li> <li>• Assurance framework</li> <li>• Financial reporting</li> <li>• Annual governance statement</li> <li>• Internal audit</li> <li>• External audit</li> <li>• Treasury management (where applicable)</li> <li>• Performance assessment (Wales) (where applicable)</li> </ul>	All members of the committee, tailored appropriately to existing knowledge.
<b>Briefings and guidance</b>	<p>Targeted support for members on:</p> <ul style="list-style-type: none"> <li>• aspects where members need additional support, eg guidance on understanding the financial statements</li> <li>• the development of more in-depth knowledge and understanding</li> <li>• ad hoc briefings on new developments in the sector (for example CIPFA’s audit committee update resource, horizon scanning updates from external auditors, etc)</li> <li>• updates on new developments or changes at the authority.</li> </ul>	<p>All members.</p> <p>Co-opted independent members.</p>
<b>Webinars, training and networking events</b>	<ul style="list-style-type: none"> <li>• Attending relevant webinars or events to develop more in-depth knowledge or updates.</li> <li>• Networking and sharing with audit committee members in other authorities to learn from others and build a network of support.</li> <li>• A range of formal events and webinars are available from a range of providers, eg regional forums.</li> </ul>	Chairs and all members

## Training needs analysis

It is helpful to undertake an analysis of training needs to identify which areas should be prioritised for training and support. Some of the core areas involve technical standards and are complex – for example, financial reporting, audit quality and treasury management. These will need regular attention to maintain committee effectiveness.

The knowledge framework can help with a training needs analysis. It can be done at any point, but the annual assessment should reflect on whether the analysis is up to date and the planned programme of support sufficient to address the priority areas.

## Impact and effectiveness

To develop the committee and provide assurance via the annual report, it is recommended that the committee is supported in a self-assessment. Alternatively, an independent review can be undertaken.

The appendices provide resources to support self-assessment and to encourage reflection on the impact that the committee has.

CIPFA has identified key indicators to inform the performance review of the audit committee. These indicators are all aspects of governance, risk, control and audit that are within the audit committee's scope of influence. While they are not solely within the control of the audit committee, weakness in these areas could indicate that the audit committee is failing to have sufficient impact.

## Problem solving

Where self-assessment indicates problems, or where those interacting with the committee report it to be under-performing, swift diagnosis and action should be planned. Appendix D highlights some areas of difficulty the committee might experience. Usually, problems arise because of misapprehension of the committee's role or inadequate training or support. Occasionally, behaviours from individual members can also contribute. These issues may be more difficult to resolve, especially if they are symptomatic of wider governance problems in the authority.

Significant weakness in the audit committee is likely to be highlighted by the external auditor as part of their governance review or as part of a peer review.



# 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	Partially complies and extent of improvement needed				Fully complies	
	Does not comply	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"/>	<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"/>	<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"/>	<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"/>	<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"/>	<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"/>	<input type="checkbox"/>
<b>Subtotal score</b>	<input type="checkbox"/>	<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>

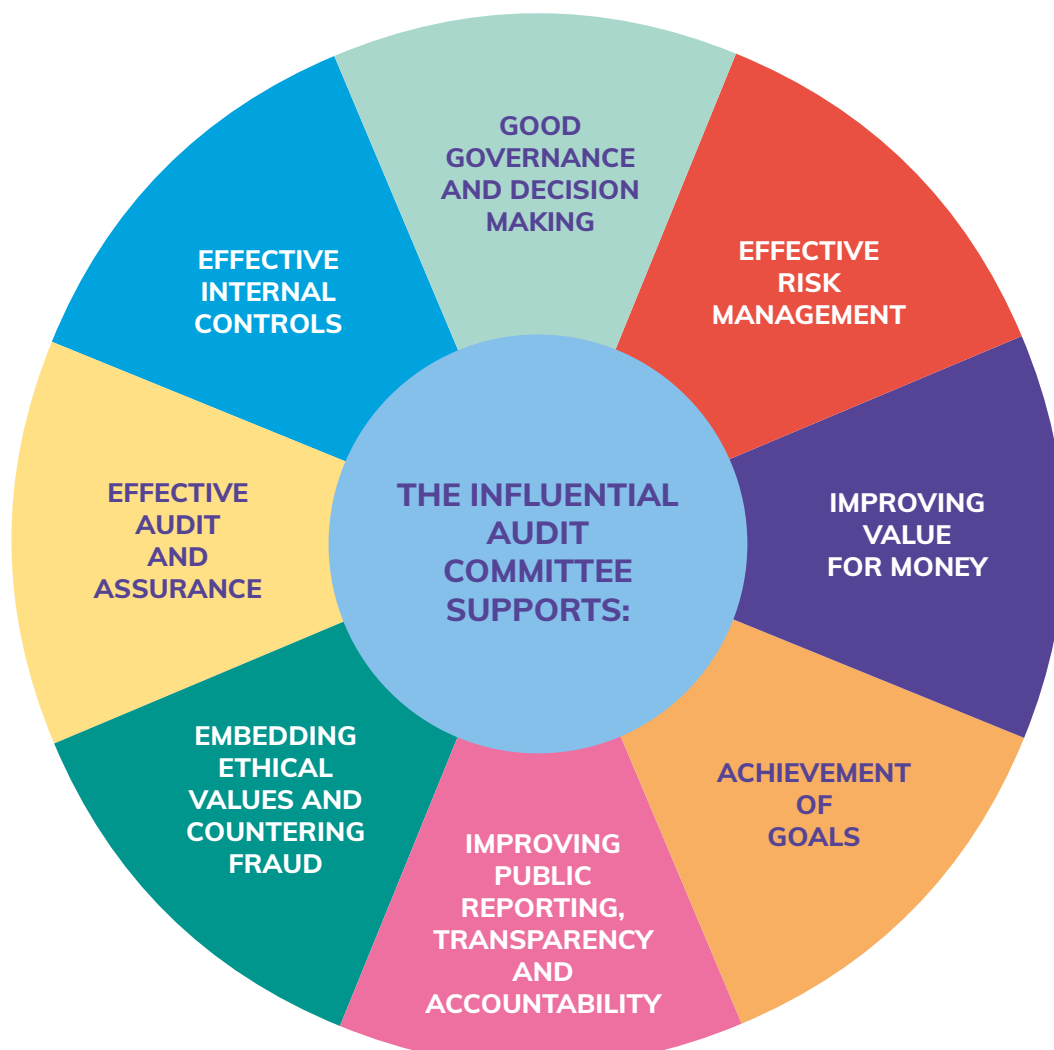
\*\* 40 questions/sub-questions multiplied by five.

# 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
<p><b>Promoting the principles of good governance and their application to decision making.</b></p>	<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>	
<p><b>Contributing to the development of an effective control environment.</b></p>	<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
<p>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.</p>	<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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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?

- Separation from executive
- A size that is not unwieldy and avoids use of substitutes
- Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation

**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?

**23** Has the committee maintained a non-political approach to discussions throughout?

Good practice questions	Does not comply					Fully complies
	Partially complies and extent of improvement needed					
	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?						
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>

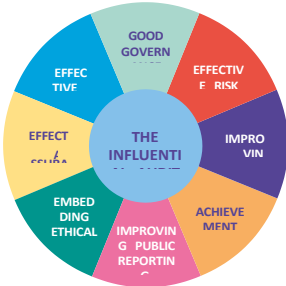
\*\* 40 questions/sub-questions multiplied by five.

# 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’.

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
<p><b>Promoting the principles of good governance and their application to decision making.</b></p>	<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>	

<p><b>Contributing to the development of an effective control environment.</b></p>	<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>
<p><b>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</b></p>	<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>
<p><b>Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</b></p>	<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>
<p><b>Supporting effective external audit, with a focus on high quality and timely audit work.</b></p>	<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.
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## 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?
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The outcome of the review can be used to inform the committee's annual report.

# Audit committees:

practical guidance for  
local authorities and police

2022 edition

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# The audit committee member in a local authority

2022 edition

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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.

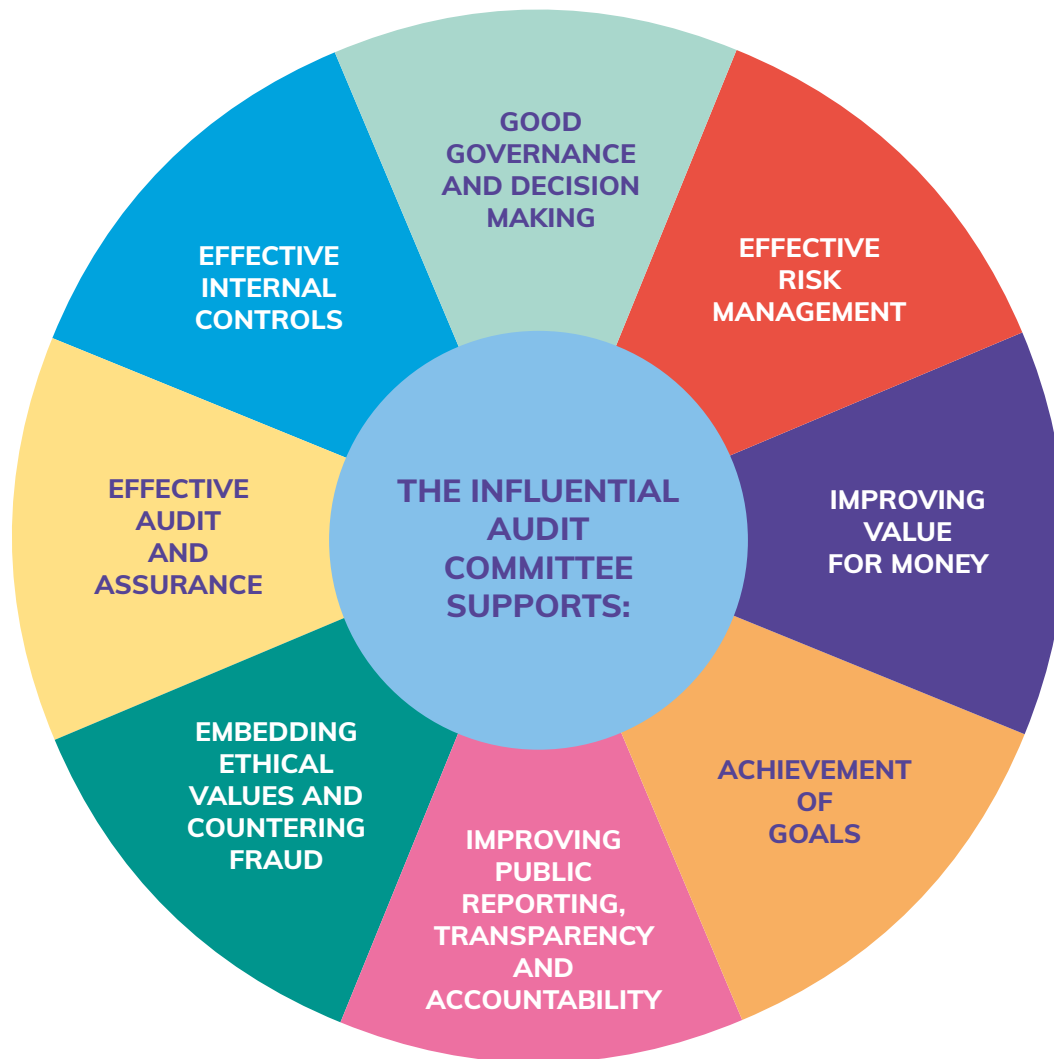
As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource for the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging 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 detail of audit tools 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 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 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
<b>Political points of view interfere with the work of the audit committee.</b>	<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>
<b>A breakdown in the relationship between committee members and the executive, PCC or chief constable/deputy chief constable, or with senior management.</b>	<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 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
<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"/>

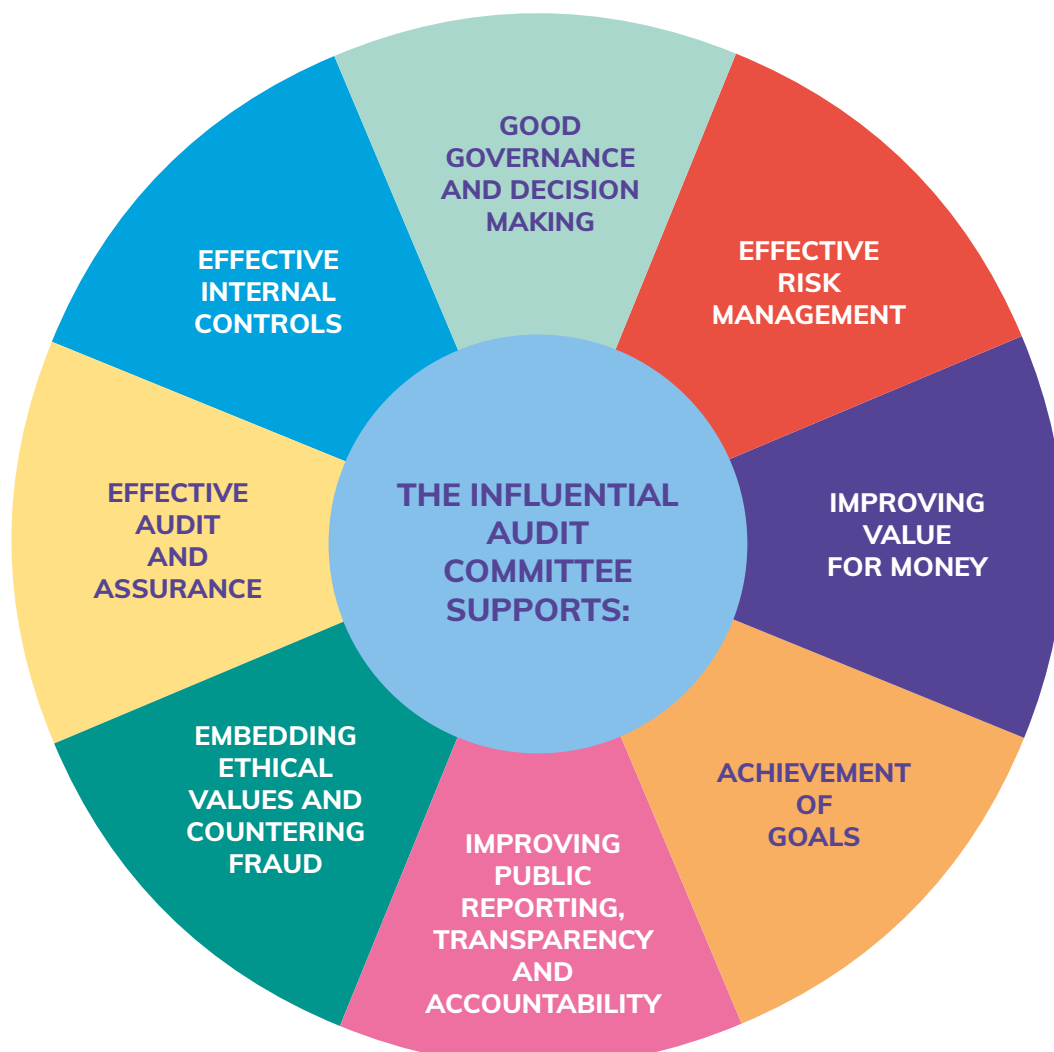
Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
24 Does the committee engage with a wide range of leaders 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>

# 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
<p><b>Promoting the principles of good governance and their application to decision making.</b></p>	<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>	
<p><b>Contributing to the development of an effective control environment.</b></p>	<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/)

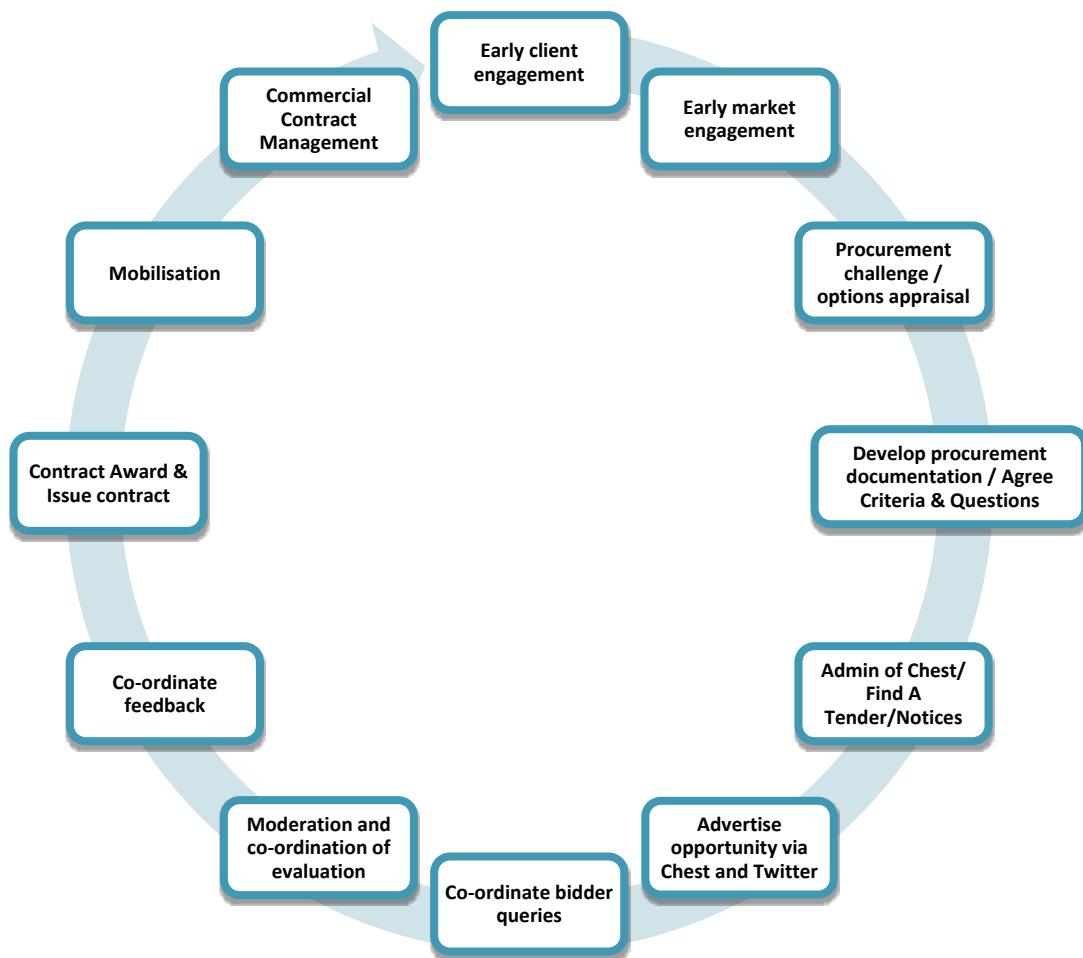
10/2022

# Agenda Item 5.

<b>Report to:</b>	<b>AUDIT PANEL</b>
<b>Date</b>	14 March 2023
<b>Reporting Officer:</b>	<b>Lorraine Cox</b>
<b>Subject:</b>	<b>STAR Procurement Update</b>
<b>Report Summary:</b>	To provide an update on the work of STAR Procurement
<b>Recommendations:</b>	To note the report
<b>Corporate Plan:</b>	Efficient and effective procurement supports the priorities within the Corporate plan
<b>Policy Implications:</b>	Effective procurement supports the policy objectives of the Council
<b>Financial Implications: (Authorised by the statutory Section 151 Officer &amp; Chief Finance Officer)</b>	Effective procurement helps ensure best use of the Council's assets, ensure Value for Money and support good governance
<b>Legal Implications: (Authorised by the Borough Solicitor)</b>	<p>There are no immediate legal implications arising from this update report.</p> <p>STaR provides a critical support to ensure that procurement exercises are undertaken compliantly and also deliver best value for the council.</p> <p>Ongoing oversight of STaR ensures that performance is monitored and that all opportunities such as collaborations are explored particularly in the challenging economic climate.</p>
<b>Risk Management:</b>	Effective procurement minimises a range of risks, financial, legal and reputational
<b>Access to Information:</b>	The report is to be considered in public.
<b>Background Information:</b>	<p>The background papers relating to this report can be inspected by contacting Lorraine Cox, Director, STAR Procurement</p> <p> e-mail: <a href="mailto:Lorraine.Cox@star-procurement.gov.uk">Lorraine.Cox@star-procurement.gov.uk</a></p>

# 1. INTRODUCTION

- 1.1 STAR Procurement was formed in 2014 as a three-partner shared service (Stockport, Trafford and Rochdale Councils). In 2018 Tameside commissioned STAR to undertake a performance review of their procurement and subsequently joined STAR as a partner.
- 1.2 STAR is the internal procurement team for Tameside and the other three Councils but operates as a formal collaborative service governed by a Joint Committee with equal representation from each of the four partner organisations.
- 1.3 STAR has a core offer to deliver to its partner organisations and provides collaborative strategic leadership, management and operation support, advice and guidance to all officers for all procurement.
- 1.4 The core offer and procurement delivery set out that STAR Procurement is involved in all aspects of the procurement cycle and supports our Partners through the process. The level of support provided is tailored depending on experience, risk, and value of the Partner service. Full support will be provided to any procurement over £25k, whilst under this limit, advice and guidance will be provided, but is not mandated. The STAR Procurement responsibilities are set out in the procurement cycle, from Partner engagement through to commercial contract management.



## 2 PROCUREMENT ACTIVITY IN 21/22, COMPLIANCE AND COLLABORATION

### Activity

- 2.1 In 21/22 STAR undertook 109 procurements for Tameside Council. These consisted of:
- 21 Above Threshold Tenders (Above the Public Procurement Regulation Value Thresholds for Goods and Services £213,477K and for Works £5,336,937)
  - 22 Call off from a Framework/direct award (These are compliant routes to market)
  - 12 Exemptions/Modifications, this is where a Tameside officer wishes to utilise the Council's Constitution rules (CPRs - Contract Procedure Rules) to directly award/extend a contract without competition, exemptions must be approved by Tameside legal team
  - 54 Below Threshold Tenders/Risk based sourcing (RBS)

### Compliance

- 2.2. Utilising spend data from Tameside's finance system, STAR reviews all spends against the STAR contract register; if the spend/supplier is on the contract register, the spend is marked as compliant spend. The spend 'off contract' is audited to work with budget holders/commissioners to ensure compliance is secured. This is a rolling programme and the position isn't ever static.

- 2.3 Examples of non-compliance include:

- A service has undertaken a procurement and appointed a supplier but not informed STAR, so it isn't on the contracts register, we audit this regularly to drive compliance and we have undertaken a contracts amnesty.
- A service cannot or has not followed due process, meaning an exemption is required and a procurement plan put in place to ensure compliance.
- Spend has exceeded the contract procedure rules (CPR) thresholds which requires a review and a plan to ensure compliance. This is picked up quarterly from our spend analysis.
- A contract has expired, and a new contract is not in place, so a plan is required to ensure compliance. There have been issues around communication of contract expiry from both a STAR and a Tameside perspective which is now much improved due to better procurement 'pipeline' planning, and new ways of working. Procurement training and monthly service meetings will improve relationships going forward.

- 2.4 Tameside Performance on Compliance:

- 21/22 Tameside Council have 91.6% of 3<sup>rd</sup> party spend on the contract register, which is deemed as high compliance.
- Average over 4 years 89%
- Compliance in 18/19 stated at 81% when Tameside joined STAR.
- Compliance is robust at 91.6% and following the reporting of this position we do review the non-compliance activity to seek a complaint solution. This is a 'moving picture' as we are continually cleansing this position.
- STAR have had zero legal challenges for any of the four STAR partners.

## 3. COLLABORATION

- 3.1 As part of working as a shared service we strive to collaborate where possible. The performance on collaboration is currently recorded where one or more of the STAR partners participates in a collaborative procurement led by STAR or where they participate in a GM regional collaborative procurement. See Appendix 2 (Live Collaborative Contracts as at February 2023).

- 3.2 Examples of where this is a challenge and possible solutions/actions:

- We don't have a mandate to make collaboration a first option. This is currently being

explored with STAR Board.

- End dates of contracts across multi-partners need aligning which require exemptions to extend current arrangements.
- Sometimes individual organisations take the decision to 'go it alone' as they feel their requirement is bespoke.
- Resistance from service departments.
- Governance to navigate to get approval from multiple organisations to work in the same way. Different cultures, processes and practices.
- A need to educate and support officers to realise the benefits of collaboration and promote evidence of success.
- A need to breakdown the information in Appendix 2 to outline the collaborative contracts where Tameside have participated.

#### **4. CONTINUOUS IMPROVEMENT FOR STAR AND ITS PARTNERS**

- 4.1 STAR has a Continuous Improvement (CI) group which has representatives from each of the four STAR partners. This helps us to drive improvement and challenge process and practice. This is reported quarterly to STAR Board and Joint Committee.
- 4.2 We are reviewing performance measures on Efficiencies and ROI with STAR Board and STAR Joint Committee. The Continuous Improvement (CI) group have been involved in developing new performance measures.
- 4.3 Current projects within STAR and the CI Group:
- National Procurement Policy Strategy (NPPS) and how STAR and its partners work towards the requirements
  - New Public Contract Regulations/Procurement Bill preparation for implementation
  - Intend system development

#### **5. CONTINUOUS IMPROVEMENT FOR STAR AND TAMESIDE**

- 5.1 STAR has a working group with representatives from Tameside Assistant Directors' Delivery Group to review and develop areas of concern – Areas under discussion are roles and responsibilities between STAR, Tameside and STAR Legal, timelines management to ensure procurement is efficient, Social Value improvement in terms of contract management and capturing impact from delivery.
- 5.2 Examples of this group working together to drive improvement include:
- Processes and Procedures Review:  
STAR and Tameside focussed on processes and procedures, as there have been some unprecedented delays around sign off of PIDs/Exemptions/Modifications and the extension of contracts in some service areas. This has been resolved and since the new Contract Procedure Rules (CPRs) were implemented and the requirement for modifications to extend contracts has been removed.
  - Training:  
STAR have delivered a number of training sessions across Tameside Council for example:
    - Social Workers uploading for mini competitions for Learning Disability (LD) Flexible Procurement System;
    - Health and Social Care Commissioners regarding best practice procurement and re-visiting roles and expectations as part of a procurement process;
    - Back to basic training has been delivered and will be offered continuously through

2023/24 to ensure compliance and procurement standards are maintained;

- Contract Procedure Rules training was rolled out during July and August 2022 to ensure everyone was familiar with the changes ahead of the approval from our four Partner organisations – this training is still available upon request;
- Tameside Council mandatory training on Procurement has been updated based on the new CPRs.

### 5.3 Pipeline work planning:

STAR regularly attends Assistant Director Delivery Group (ADDG) to share pipeline planning and collaborative opportunities (contracts due to expire), discuss any changes to STAR and National Procurement updates from the Local Government Association (LGA) and Regionally from GM Heads of Procurement. For example, preparing for the new Procurement Bill, National Procurement Policy Statement, market pressures/Global Crisis, supplier risks and general updates.

### 5.4 Process Review:

We recognise that our processes are somewhat onerous for low-risk activity, and we are undertaking an end-to-end review to assess our processes, practices, forms, and approaches in order to reduce the process further to allow a more efficient service to our clients. This also links to changes in Public Procurement ahead of the new Procurement Bill. This also plays into process automation where we hope to have a more automated case management system and documents to be online/live to reduce email exchanges etc.

### 5.5 Audit Plan 2023:

STAR works closely with the four Chief Auditors across the four STAR partner organisations, this relationship is strong. We plan a procurement joint audit programme annually to not duplicate effort and to share findings, so we all learn from their own organisation and share with each other. Examples of planned audits are contract extensions; risk-based sourcing; delivery of social value and fees and charges (income activity).

### 5.6 Exemptions/Modifications:

The Contract Procedure Rules clearly set out the circumstances in which an exemption or modification could apply. Exemptions and modifications are monitored and recorded by STAR and procurement comments are provided as part of the process. The approvals for exemptions and modifications are the responsibility of each Council. Exemptions can be a useful tool for procurement, particularly when needing to align contracts for collaborative procurement.

## 6. PERFORMANCE

### 6.1 STAR reports to STAR Board and STAR Joint Committee quarterly on the collective performance for STAR as a shared service and covers:

- Savings/efficiencies
- Return on investment
- Income
- Social value
- Local spend
- Compliance/On-contract spend

### 6.2 This performance is also broken down into each individual STAR organisation and this is now being shared with the STAR Board representative from each organisation. This report also includes a summary of 21/22 performance for Tameside Council (see Appendix 1).

- Contract Procedure Rules training was rolled out during July and August 2022 to ensure everyone was familiar with the changes ahead of the approval from our four Partner organisations – this training is still available upon request
- Tameside Council mandatory training on Procurement has been updated based on

the new CPR's

### 6.3 Definitions of Performance Measures:

#### 6.3.1 Savings (Now reported as Efficiencies)

STAR collate efficiencies quarterly which are ratified by the Council finance teams. This is calculated in general from the budget against the new contract price. This is consistent with most other methods of calculation of savings/efficiencies such as AGMA/GM Procurement Hub and other GM Authorities. Any decision to remove such efficiencies from budgets remains with the Authority that owns the contract. We do split this into capital, revenue, cost avoidance when reporting to STAR Board and Joint Committee to allow clarity that not all efficiencies can be removed from budgets.

#### 6.3.2 Return on Investment (ROI)

The ROI is a calculation based on annual efficiencies and the annual membership fee paid into STAR.

#### 6.3.3 Local Spend

Local spend is based on the operating post code of the supplier/contractor (from Tameside's finance payments system for 3<sup>rd</sup> party spend activity) and in terms of its location being within the Borough boundary of Tameside Council.

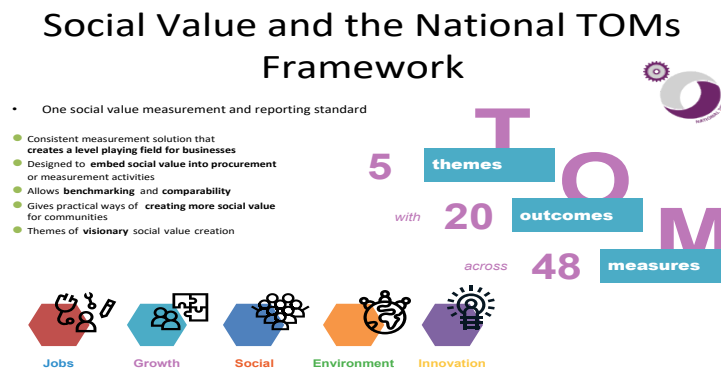
#### 6.3.4 GM Spend

GM spend is based on the operating post code of the supplier/contractor (from Tameside's finance payments system for 3<sup>rd</sup> party spend activity) and in terms of its location being within the regional boundary of Greater Manchester which includes the Tameside Borough spend.

## 7. SOCIAL VALUE

7.1 Social value has always featured in procurement but from April 2019 we launched the use of the Social Value Portal (SVP) to capture and report on social value secured. We have also identified that on average per annum we do have 20% (15% over threshold) weighting in all procurement above contract value £25K.

7.2 We have used National TOMs (Themes Outcomes and Measures) since April 2019, and this has been successful in terms of supporting commissioners and procurers in understanding and valuing the importance of social value in procurement and has also allowed the business communities to understand and offer more meaningful social value in their tenders. We believe this has been instrumental in improving local and regional spend activity from SMEs and VCSEs being able to bid and complete more fairly. We also target the GM market ahead of procurement commencement with our pre-engagement protocol. But there is some way to go to drive more local and diverse success in our winning contractors/suppliers.





### 6.3 Social Value Return (Secured)

To date STAR has captured social value from the winning bidder at the point of contract award. We do intend moving to reporting on 'delivered' social value, this will be in place from April 2023. This will be part of a rollout programme to identify and support areas for improvement in social value contract management within Council departments and will also allow us to identify any non-delivery risk. We do have some examples of contractors/suppliers over performing and delivering even more than secured at contract award stage.

Performance:

- 21/22 reported 25% accumulative social value secured as a % of contract value over 3 years, this meets the STAR target.
- Social value was at 19.5% in 19/20 after joining STAR and the first year that this measurement was captured for Tameside.
- Social value is embedded into all procurement above £25K and recorded via the Social Value Portal for activity over £50K for Tameside.
- Tameside case studies (see Appendix 3).

Areas for Development:

- STAR intends providing a report from April 2023 to partners to show the delivered social value against that secured at contract award stage. This will allow us to see where contract management is robust and areas for improvement within your organisation. This will also allow us to report on the actual social value being delivered against Tameside's Corporate Priorities so you can see the impact this is having to the residents and businesses within the Borough.
- Tameside need a bespoke set of Measures (TOMs) linked to Corporate Priorities. This will aid us securing the RIGHT social value rather than what bidders want to offer. This will be presented to SLT in Tameside for approval. This has some work to do to ensure we work with Tameside to develop a more bespoke approach to ensure outcomes link to Corporate Priorities. Social value can support improvement in delivering real outcomes.
- Social value could be viewed across the whole organisation, not just in procurement. There are examples from other Councils that apply this in planning processes. It can be used to bring out better jobs/employment and as Tameside is a supporter of the GM Good Employment Charter, this could be a key focus that could be applied to Tameside's approach to social value.
- GMCA committed to six key priorities in March 2022 to drive more social value through procurement. These focus on; Real Living Wage, GM Good Employment Charter, Inclusivity, Local Spend, Diversity in the supply Chain (SMEs and VCSEs etc.) and Carbon reduction. STAR is developing ways that we can drive towards these priorities in procurement activity. This needs to be explored further with Tameside as we do have progress in other STAR partner organisations with respect to Real Living Wage and GM Good Employment Charter which commends this to potential bidders through the procurement processes.

## 8. **RECOMMENDATIONS**

- 8.1 To note the work of STAR Procurement, its performance and plans for further development.

# Appendix 1:

## Tameside Council and STAR Performance 21/22:

### **Savings (Now reported as Efficiencies)**

Tameside Performance:

- 21/22 Efficiencies for Tameside £957,950
- Tameside have achieved Savings/Efficiencies of on average £1.9M per annum over the last three years

Efficiencies vary considerably based on procurement activity in each year and contracts due to expire as well as market conditions. Therefore, an average over multiple years gives a better position of efficiency outcomes.

### **Return on Investment (ROI)**

Tameside Performance:

- For 21/22 the ROI for Tameside is 2.3 (based on £957,950K Efficiencies). So for every £1 paid for the membership to STAR there is a 'return' of £2.30 based on efficiencies secured.

### **Local Spend**

Tameside Performance:

- For 21/22 Tameside spent 53.6% of its 3rd party contracted spend within Tameside Borough
- Average local spend for Tameside over the past 4 years: 59.1%

### **GM Spend**

Tameside Performance:



- Greater Manchester retained spend for Tameside contracts: 75.2%
- Average GM spend for Tameside contracts over the past 4 years: 77.5%
- We are collating SME and VCSE activity to create a baseline to drive improvement. 22/23 data to be used for the baseline.

**(Current live collaborative contracts as of February 2023)**

<b>Live Collaborative Contracts</b>	<b>Collaborative Group</b>
Alternative Provision Flexible Procurement System	STAR Collaboration
Appropriate Adult Service	AGMA Collaboration
Assurance Audit: Housing Benefit (Subsidy), Assurance Process (HBAP), Teachers' Pension Scheme Assurance, and Use of Capital Receipts Assurance - Rochdale	AGMA Collaboration
Bikeability Cycle Training	AGMA Collaboration
Children and Young People Foster Care Flexible Procurement System	AGMA Collaboration
Children's and young people's Residential Placements	AGMA Collaboration
Chlamydia and Gonorrhoea Screening Support Service	STAR (External Partner) Collaboration
Citizen Advice Service	STAR Collaboration
Collection and Delivery of Letters, Large letters and Parcels	AGMA Collaboration
Compostable Liners (Caddy Liners)	AGMA Collaboration
Cost Manager RDA Town Hall	AGMA Collaboration
Description of Requirement Collection and Delivery of Letters, Large Letters and Parcels	AGMA Collaboration
Design Engineer Construct Sponsorship COYO	AGMA Collaboration
Dynamic Purchasing System for Home to School Transport including Special Educational Needs and Disabilities and Vulnerable Adults Transport	AGMA Collaboration
Early Payment Scheme - Early payment of suppliers	STAR (External Partner) Collaboration
E-Procurement Tender Portal	AGMA Collaboration
GM Libraries eBooks and eAudiobooks	AGMA Collaboration
GM Temporary Staffing Supply	AGMA Collaboration
Greater Manchester Learning Disability and Autism FPS	AGMA Collaboration
Health and Social Care Network (HSCN) connection	AGMA Collaboration
Highways Framework	STAR Collaboration
Hosted People and Organisational Development System	STAR (External Partner) Collaboration
HR & Payroll Solution	AGMA Collaboration
Hublet Purchase	AGMA Collaboration
Independent Mental Capacity Advocacy service	STAR Collaboration
Independent Support Service to Birth Parents	STAR (External Partner) Collaboration
Insurance Broker Services	STAR Collaboration
Integrated Sexual Health Services for Oldham, Rochdale and Bury (ORB)	STAR (External Partner) Collaboration
Integrated Sexual Health Services for Stockport & Tameside	STAR (External Partner) Collaboration
Integrated Sexual Health Services for Stockport & Tameside (ST)	STAR (External Partner) Collaboration
L6 SOCIAL WORKER SEPT 21 COHORT	AGMA Collaboration
Liquid Logic Systems - Children's and Adults	AGMA Collaboration

Mediation and Disagreement Resolution Service	STAR Collaboration
Mobile Voice and Data Services	AGMA Collaboration
Mobile Voice and Data Services Aggregation – NFC137	AGMA Collaboration
Multi-functional devices (MFD's) 2	STAR Collaboration
NFC126/EA21 Hardware for Local Authorities	AGMA Collaboration
North West Foster Care FPS	AGMA Collaboration
North West Regional Supported and Independent Living Service (SaLLS)	AGMA Collaboration
North West Regional Supported and Independent Living Services (SAILS) FPS (16+)	AGMA Collaboration
North West Residential Placements FPS	AGMA Collaboration
NORTHERN POOL PROPERTY MANAGEMENT FRAMEWORK	STAR (External Partner) Collaboration
NORTHERN POOL PROPERTY MANAGEMENT FRAMEWORK	STAR (External Partner) Collaboration
Occupational Health Provider	STAR(External Partner) Collaboration
Offsite Storage 1	STAR Collaboration
Open Library System	AGMA Collaboration
Owners Engineer Contract	STAR (External Partner) Collaboration
Parking Enforcement and Associated Services	AGMA Collaboration
PaSH GM (PARTNERSHIP) Contract	STAR (External Partner) Collaboration
Provision of Public Analyst: Emergency Call Out Service	AGMA Collaboration
Provision of Short Breaks for Children and Young People with Disabilities FPS	STAR Collaboration TEST
Provision of Supported Living Services (5)	AGMA Collaboration
Public Analysts Service For Greater Manchester	AGMA Collaboration
Purchase of Wheeled Bins	STAR Collaboration
Rochdale & Oldham Collaborative Substance Misuse Treatment & Recovery Service	STAR (External Partner) Collaboration
Rochdale Treasury Management Service	AGMA Collaboration
Supply and Delivery of Groceries/Chilled Foods and Frozen Foods	AGMA Collaboration
Supply and Servicing of Materials to Public Library Authorities	NW Libraries Consortium
Supply of Water and Ancillary Services	STAR Collaboration
Supply, Repair and Fitment of Tyre Services	STAR (External Partner) Collaboration
Support of Intelligence Collection of Business Rates	STAR (External Partner) Collaboration
Tameside Integrated Community Equipment Service Contract	STAR (External Partner) Collaboration
The Chest eProcurement Portal	AGMA Collaboration
The provision of Short Breaks for children and young people with disabilities	AGMA Collaboration
Winter Bureau Service and Maintenance	AGMA Collaboration
Winter Service Weather Forecasting - Stockport	AGMA Collaboration
Zinio / eMagazines	AGMA Collaboration

## Social Value Case Studies

	
<b>Social Value Case Study</b>	
<b>Uniform System Support</b>	
<p><b>Contracting Authority</b> – Tameside Council</p> <p><b>Winning Bidder</b> - Idox Software Ltd</p> <p><b>Supplier Location</b> – National</p> <p><b>Supplier Type</b> – Large</p> <p><b>Contract Start &amp; End Dates</b> – 01/04/2021 to 31/03/2022</p>	<p><b>Contract Length</b> – 1 year</p> <p><b>Contract Value</b> - £171,000</p> <p><b>Committed Social &amp; Local Economic Value</b> - £135,230</p> <p><b>Delivered Social &amp; Local Economic Value in 21/22</b> - £48,305.50</p> <p><b>% of 21/22 Delivered Social Value against the contract value</b> – 28.24%</p>
<p><b>Delivered Evidence 21/22</b></p> <ul style="list-style-type: none"> <li>• NT1 – No. of local people (FTE) employed on the contract – In 21/22 Idox Software Ltd delivered 1.75 which amounts to £46,805.50. Delivery evidence submitted = Between 01/04/2021 - 31/03/2022 9 staff worked at the Manchester office and lived within Manchester. The total number of units is 1.75.</li> <li>• NT28 - Donations or in-kind contributions to local community projects – In 21/22 Idox Software Ltd delivered 1500 which amounts to £1500. Delivery evidence submitted = A PO of GBP1500 has been issued. PO number 2017177.</li> </ul> <p>NT1 is mapped TOMs that feed directly into Tameside Council’s corporate priorities.</p>	



**Social Value Case Study**

**The Provision of a Mental Health Community Recovery Service**

**Contracting Authority** – Tameside Council

**Winning Bidder** - Creative Support Ltd

**Supplier Location** – Greater Manchester

**Supplier Type** – Large

**Contract Start & End Dates** – 01/04/2021  
to 31/03/2026

**Contract Length** – 5 years

**Contract Value** - £836,449

**Committed Social & Local Economic Value** -  
£170,959

**Delivered Social & Local Economic Value in  
21/22** -  
£150,345.70

**% of 21/22 Delivered Social Value against the  
contract value** – 17.97%

**Delivered Evidence 21/22**

- NT1 – No. of local people (FTE) employed on the contract – In 21/22 Creative Support Ltd delivered 5.44 which amounts to £145,498.24. Delivery evidence submitted = Please see attached NT1 - Local Staff Details and NT1 - Tameside MH CR - Local Staff.



Social Value  
Evidence Template -

- NT9 – No. training opportunities on contract Level 2 3 or 4+ - In 21/22 Creative Support Ltd delivered 5 weeks which amounts to £1231.95. Delivery evidence submitted = Please see attached NT9 - Staff Qualification and NT9 - Staff Qualification Evidence.



NT9 - Staff  
Qualification.docx

- NT12 - No. of weeks spent on meaningful work placements or pre-employment course – In 21/22 Creative Support Ltd delivered 17.5 weeks which amounts to £2606.52. Delivery evidence submitted = Please see attached NT12 - Student Placement.



NT12 - Student  
Placement.docx

- NT18 – Total amount spent in local supply chain through the contract - In 21/22 Creative Support Ltd delivered 210.45 which amounts to £138.89. Delivery evidence submitted = Please see attached NT18 - Local Spend GBP and NT18 - Tameside Taxis POs.



NT18 - Tameside  
Taxi POs.xlsx



NT18 - Local Spend  
£.docx

- NT20 - Employee access to multidimensional wellbeing programmes – In 21/22 Creative Support Ltd delivered 7 which amounts to £870.10. Delivery evidence submitted = Please see attached NT20 - Multidimensional Wellbeing Programme NT20 - EAP Leaflet and NT20 - Staff on Contract.



NT20 -  
Multidimensional W




NT20 - Staff on  
Contract.xlsx

NT1, NT9, NT18 and NT20 are mapped TOMs that feed directly into Tameside Council's corporate priorities.

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# Agenda Item 6.

<b>Report to:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Reporting Officer:</b>	Stuart Fair – Interim Director of Finance
<b>Subject:</b>	<b>EXTERNAL AUDIT PROGRESS REPORT</b>
<b>Report Summary:</b>	This report provides the Audit Panel with an update on the work undertaken by External Audit.
<b>Recommendations:</b>	Audit Panel are recommended to note the contents of the External Audit progress report.
<b>Corporate Plan:</b>	The Corporate Plan determines priorities for spending which is summarised in the statutory accounts.
<b>Policy Implications:</b>	There are no direct policy implications flowing from the Statement of Accounts.
<b>Financial Implications:</b> (Authorised by the statutory Section 151 Officer & Chief Finance Officer)	There are no direct financial implications arising from the External Audit Progress Report.
<b>Legal Implications:</b> (Authorised by the Borough Solicitor)	<p>The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities. The overarching intention of the Act is to ensure appropriate monitoring and oversight of the council's accounts and includes the appointment of external auditors.</p> <p>Auditors and the planned audit approach will ensure that the Council's accounts comply with statutory requirements.</p>
<b>Risk Management:</b>	<p>The external audit provides verification of the Council's financial statements.</p> <p>By producing the annual Statement of Accounts, the Council aims to give all interested parties confidence that the public money that has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.</p>
<b>Access to Information:</b>	The report is to be considered in public.
<b>Background Information:</b>	<p>The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner</p> <p> Telephone: 0161 342 2929</p> <p> e-mail: <a href="mailto:heather.green@tameside.gov.uk">heather.green@tameside.gov.uk</a></p>

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# Audit Progress Report

Tameside Metropolitan Borough Council

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March 2023



1. Audit Progress

2. National Publications

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# 01

## Section 01: **Audit Progress**

# Audit Progress

## Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

## Audit progress

### 2020/21 financial statements audit

Our audit of the Council's 2020/21 financial statements is substantially complete. Finalisation of the audit is subject to the resolution of a small number of queries in relation to infrastructure assets and pension liabilities.

Committee Members will recall the national, technical accounting issue in relation to the accounting for infrastructure assets. Since the last meeting of the Audit Panel, the Department for Levelling Up, Housing and Communities (DLUHC) issued a statutory override, which provides a temporary solution up to the 2024/25 financial year. CIPFA released updated guidance based on the statutory override on 11 January 2023. The Council's finance team has reviewed the updated guidance and has updated the financial statements for the new guidance. We are in the process of completing our audit procedures on this area.

The auditor of Greater Manchester Pension Fund has notified us of a potential issue in respect of the valuation of level 3 investments. Until their work in this area is finalised, we are unable to determine the impact on the Council's accounts. We are awaiting further correspondence from the auditor of Greater Manchester Pension Fund before being able to finalise our audit.

We will report the results of our work in our Audit Completion Report.

### 2020/21 work on the Council's arrangements to deliver value for money

We are completing our fieldwork on the arrangements for the 2020/21 financial year, and intend to report the findings from our work in our Auditor's Annual Report.

### 2021/22 financial statement audit

Our audit of the Authority's 2021/22 financial statements is progressing. Our audit planning procedures are complete and we will issue our Audit Strategy Memorandum to the next meeting of the Audit Panel.

# 02

## Section 02: **National Publications**

# National publications

	Publication/update	Key points
<b>Financial Reporting Council (FRC)</b>		
1	FRC Major Local Audit Inspection Report	Outcome of the FRC inspection of audit quality from 2020/21 audits
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
2	Insourcing in the Public Sector: A Practical Guide (2022 edition)	Guidance for practitioners
3	CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution	Covers the issues to be considered regarding the temporary solution for the accounting and reporting issues relating to infrastructure assets
<b>Public Sector Audit Appointments Ltd</b>		
4	Directory of Auditor Appointments from 2023/24	Auditor appointments for PSAA opted-in bodies
5	Publication of the 2022/23 fee scale	External audit fees for 2022/23

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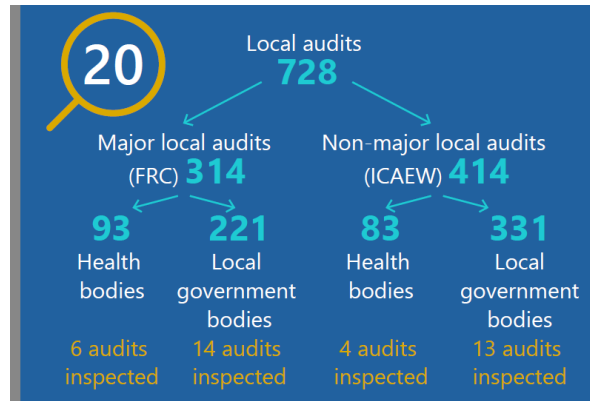
# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 1. FRC Major Local Audit Inspection Report - October 2022

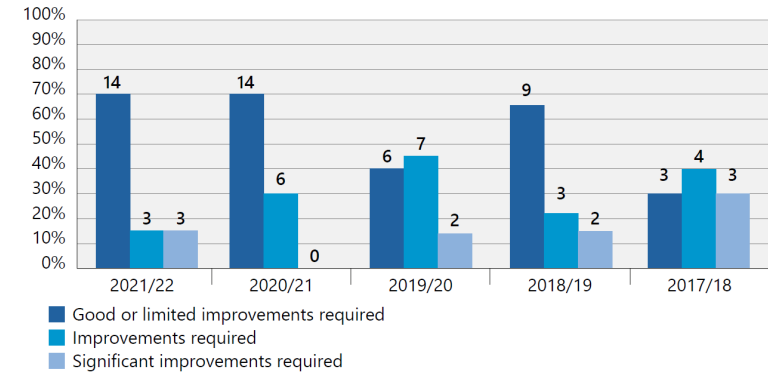
The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. The ICAEW also reviewed 17 non-MLAs (none from Mazars).

Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
<b>Total</b>	<b>314</b>		<b>20</b>



Overall, the FRC found that the number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, there was an increase in the number of audits assessed as requiring significant improvements and they deemed this as unacceptable.

All financial statement reviews – for the firms inspected



For Mazars, the FRC found that all 3 2021.22 files reviewed met the expected standards.

This was the second successive year of 100% compliance for Mazars.

Whilst the sample size is small and focused on the higher risk audits, these strong outcomes reflect the investment we have made in people, technical expertise, specialists (such as building an in-house valuation team) and strengthening our audit methodology. Maintaining and improving audit quality is a key objective of the firm and our investment will continue.

# NATIONAL PUBLICATIONS

## CIPFA

### 2. Insourcing in the Public Sector: A Practical Guide (2022 edition), December 2022

The guide is an information source for public bodies to help widen their understanding of insourcing and support internal discussion on whether services should be brought back in-house and, if so, how they should be brought back in. In recent times, several outsourced arrangements have failed due to poor quality and unreliability of providers. It is important to note that while insourcing does not require a public body to run a full procurement process, it still needs to follow a process and undertake key steps (for example, TUPE and asset transfer) and is equally reliant on the public body having expert and skilled personnel to manage this.

This practical guide will support public sector practitioners in understanding key areas to focus on when considering insourcing as part of future delivery models.

<https://www.cipfa.org/policy-and-guidance/publications/i/insourcing-in-the-public-sector-a-practical-guide-2022-edition>

### 3. CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution, January 2023

The CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution covers the issues to be considered regarding the temporary solution for the accounting and reporting issues relating to infrastructure assets.

The objective of the bulletin is to provide guidance on the temporary solution for accounting for infrastructure assets, focussing on the reporting of the derecognition provisions where there is replacement expenditure and particularly for highways infrastructure assets

The temporary solution includes the Update to the Code and Specifications for Future Codes for Infrastructure Assets (Update to the Code) from 1 April 2021 to 31 March 2025 which features a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets and the statutory prescriptions from England and Wales and Scotland

The Bulletin also includes guidance on accounting for the pattern of consumption of economic benefits and service potential i.e. depreciation.

The Bulletin includes guidance on materiality, an overview of different elements of the temporary solution, the accounting requirements for derecognition including the statutory prescription, the impact on accounting policies and the reporting requirements for disclosure of gross cost and accumulated depreciation

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-12-accounting-for-infrastructure-assets-temporary-solution>

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 4. Directory of Auditor Appointments from 2023/24, January 2023

PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement. The PSAA Board agreed the appointments at its meeting on 16 December 2022. Mazars will continue as the Authority's external auditor from 2023/24.

<https://www.psa.co.uk/2023/01/directory-of-auditor-appointments-from-2023-24/>

### 5. Publication of the 2022/23 fee scale, November 2022

PSAA has published the 2022/23 audit fee scale following consultation. Information on the fee scale and consultation is available. Most audit work under this fee scale will be undertaken from April 2023 onwards. The Authority's scale fee for 2022/23 is £82,498.

The 2022/23 fee scale is the last in the current appointing period which is under the 2017 audit contracts. New contracts will apply from the 2023/24 audit following a procurement during 2022. PSAA intend to consult on the fee scale for the 2023/24 audit in early autumn 2023.

<https://www.psa.co.uk/2022/11/news-release-publication-of-the-2022-23-fee-scale/>

### 6. Audit Committees: Practical Guidance for local Authorities and Police (2022 edition), October 2022

Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA's 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees. The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

# Contact

## Mazars

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<b>Report to:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Executive Member / Reporting Officer:</b>	Stuart Fair – Director of Finance
<b>Subject:</b>	<b>EXTERNAL AUDIT STRATEGY MEMORANDUM</b>
<b>Report Summary:</b>	The attached document (Appendix 1) summarises the planned audit approach of External Audit for Greater Manchester Pension Fund (GMPF), highlighting significant audit risks and areas of key judgements for the accounts. The document also sets out the key communications during the course of the audit.
<b>Recommendations:</b>	Members of the Audit Panel are asked to note the contents of the External Audit Strategy memorandum for GMPF.
<b>Corporate Plan:</b>	The Corporate Plan determines priorities for spending, which is summarised in the 2021/22 accounts.
<b>Policy Implications:</b>	There are no direct policy implications flowing from the Statement of Accounts.
<b>Financial Implications:</b> (Authorised by the statutory Section 151 Officer & Chief Finance Officer)	The Statement of Accounts 2021/22 provide full details of the Fund's financial position at 31 March 2022. The accounts are prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting which is based on International Financial Reporting Standards.
<b>Legal Implications:</b> (Authorised by the Borough Solicitor)	Auditors and the planned audit approach are required to ensure that the Council's accounts comply with statutory requirements including The Local Audit and Accountability Act 2014, which sets out the proper practices compiling, verifying and reporting the Council's financial position.
<b>Risk Management:</b>	<p>The external audit provides verification of the Council's financial statements.</p> <p>By producing the annual Statement of Accounts, the Council aims to give all interested parties confidence that the public money that has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.</p>
<b>Access to Information:</b>	The report is to be considered in public.
<b>Background Information:</b>	<p>The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner</p> <p> Telephone: 0161 342 2929</p> <p> e-mail: <a href="mailto:heather.green@tameside.gov.uk">heather.green@tameside.gov.uk</a></p>

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# Audit Strategy Memorandum

## Greater Manchester Pension Fund

Year ended 31 March 2022

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- 02 Your audit engagement team
- 03 Audit scope, approach and timeline
- 04 Significant risks and other key judgement areas
- 05 Fees for audit and other services
- 06 Our commitment to independence
- 07 Materiality and misstatements
- A Appendix – Key communication points

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This document is to be regarded as confidential to Greater Manchester Pension Fund. It has been prepared for the sole use of the Audit Panel as those charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



Members of the Audit Panel  
Greater Manchester Pension Fund,  
Guardsman Tony Downes House,  
5 Manchester Road,  
Droylsden,  
M43 6SF

29 September 2022

Dear Sirs / Madams,

## Audit Strategy Memorandum – Year ended 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Greater Manchester Pension Fund for the year ended 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Greater Manchester Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07721 234043.

Yours faithfully

Karen Murray

Mazars LLP

Mazars LLP – One St. Peter's Square, Manchester, M2 3DE

Tel: +44(0) 161 238 9200 – [www.mazars.co.uk](http://www.mazars.co.uk)

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Mazars LLP  
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Manchester  
M2 3DE

# 01

Section 01:

## **Engagement and responsibilities summary**

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# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of Greater Manchester Pension Fund (the Fund) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Panel, as those charged with governance, of their responsibilities.



### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management, Internal Audit, and other key individuals where relevant as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

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### Consistency report

We are required to form and express an opinion on the consistency of the financial statements within the Fund's annual report and the Fund's financial statements included in the Statement of Accounts of Tameside Metropolitan Borough Council.



### Going concern

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Director of Finance is responsible for the assessment of whether it is appropriate for the Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



### Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of Tameside Metropolitan Borough Council and consider any objection made to the accounts. This would include an objection made to the accounts of the Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendix

# 02

Section 02:

**Your audit engagement team**


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# 2. Your audit engagement team




**Karen Murray**  
Audit Partner

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Telephone: 07721 234043



**Alastair Newall**  
Senior Audit Manager

Email: alastair.newall@mazars.co.uk  
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**Ian Gilroy**  
Audit Senior

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Telephone: 07580 999137

In addition, an engagement quality control reviewer has been appointed for this engagement.



# 03

Section 03:

## **Audit scope, approach and timeline**

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# 3. Audit scope, approach and timeline

## Audit scope

Our audit complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is risk based and is primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in Section 7.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



# 3. Audit scope, approach and timeline

## Planning – April - June 2022

- Planning visit and developing our understanding of the Fund
- Initial opinion assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

## Completion – TBC

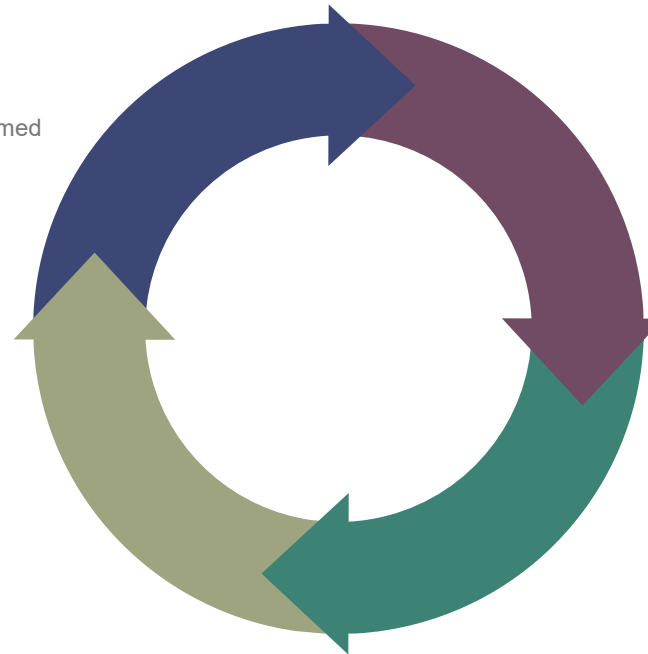
- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Panel
- Reviewing subsequent events
- Signing the auditor's reports

## Interim – June 2022

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork – August – October 2022

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



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# 3. Audit scope, approach and timeline

## Reliance on internal audit

We utilise the work performed by internal audit to inform our risk assessment so that we can modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

## Management’s and our experts

Management makes use of experts in specific areas when preparing the Fund’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Disclosures on funding arrangements and actuarial present value of promised retirement benefits	Hymans Robertson	NAO Consulting Actuary: PwC
Valuation of unquoted investments not traded on active markets	Investment managers and Custodian	Internal Mazars Property Valuation team

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
Quoted investment valuations	Investment Fund managers and Custodian	Substantive procedures
Unquoted investment valuations and related disclosures	Investment Fund managers and Custodian	Substantive procedures
Stock lending including information used for the stock lending disclosure note	Custodian	Substantive procedures



# 04

Section 04:

**Significant risks and other key judgement areas**

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# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

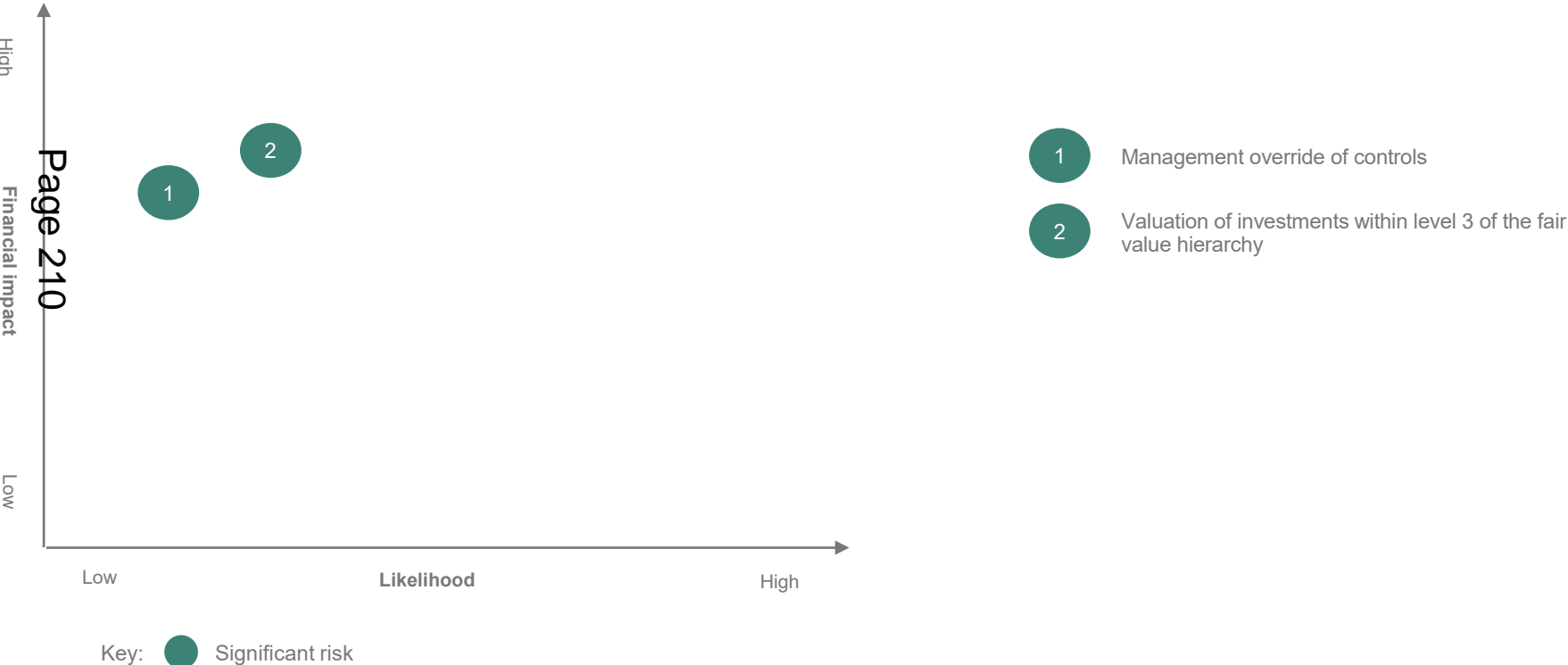
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# 4. Significant risks and other key judgement areas

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Fund. We have summarised our audit response to these risks on the next page.



# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Panel.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1 Page 211	<p><b>Management override of controls</b>                      This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk by performing audit work over:</p> <ul style="list-style-type: none"> <li>• accounting estimates,</li> <li>• journal entries and</li> <li>• significant transactions outside the normal course of business or otherwise unusual.</li> </ul>



# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
Page 212	<p><b>Valuation of investments within level 3 of the fair value hierarchy</b></p> <p>As at 31 March 2022, the fair value of investments within level 3 of the fair value hierarchy was £7.6bn, which accounted for approximately 25 per cent of net investment assets. Level 3 assets are those assets whose value is based on unobservable inputs, and consequently the estimation uncertainty for these assets is more significant than for assets valued at level 1 and 2.</p>	○	●	●	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of any external valuers used by the Pension Fund, and considering the appropriateness of the Pension Fund's instructions to those valuers.</li> <li>• Obtaining an understanding of the basis of valuation applied in the year.</li> <li>• Agreeing the valuation of a sample of investments to supporting documentation including investment manager valuation statements and cash flow adjustments; and</li> <li>• Agreeing the valuation of a sample of investments to audited financial statements or other independent supporting documentation.</li> <li>• Obtaining assurance from our Mazars property valuation expert on the appropriateness of the methodology and assumptions adopted by the Pension Fund's investment property valuer.</li> <li>• Sample testing the completeness and accuracy of underlying investment property data used by the valuer as part of their valuations.</li> </ul>

### Revenue recognition

We have considered the presumed risk of fraud under ISA (UK) 240 in relation to revenue recognition and have concluded that there is little incentive or opportunity to manipulate revenue at the Fund. We have therefore concluded that we can rebut this presumed risk and our testing of revenue will be as a standard risk. We have therefore not incorporated specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

### Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement Other than those reflected in the table above we have not identified any such judgements, and we have not identified any enhanced risks.



# 05

Section 05:

**Fees for audit and other services**

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# 5. Fees for audit and other services

## Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter.

Area of work	2021/22 Proposed Fee	2020/21 Planned Fee
Code Audit Work	£43,383	£43,383

## Fees for pension assurance

The fees for Code Audit Work does not include fees chargeable to the Fund for pension fund work undertaken at the request of employer auditors for the year ended 31 March 2022. The total fees chargeable for this work were £26,100 in 2020/21. Our fees for this work in 2021/22 are still to be agreed. It is expected that the Fund will recharge these fees to the relevant employers. This approach is in line with the PSAA Terms of Appointment and the expectation within NAO's AGN01 General Guidance Supporting Local Audit.

## Fees for non-PSAA work

We have not been engaged by the Pension Fund to carry out any additional work separate from our delivery of the NAO Code of Practice audit work. Before agreeing to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 6.





# 06

Section 06:

**Our commitment to independence**

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# 6. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC’s Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- partners and staff are required to complete an annual independence declaration;
- new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Karen Murray in the first instance.

Prior to the provision of any non-audit services Karen will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

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# 07

Section 07:

## **Materiality and other misstatements**

Page 217

# 7. Materiality and misstatements

## Summary of materiality thresholds

Threshold	£m
Overall materiality	293.0
Performance materiality	234.4
Specific overall materiality applicable to the Fund Account	90.0
Specific performance materiality applicable to the Fund Account	72.8
Trivial threshold for errors to be reported to the Audit Panel	8.79

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our materiality is set based on a benchmark of net assets. We identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Panel.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



# 7. Materiality and misstatements

## Materiality (continued)

We set a materiality threshold at 1% of net assets. Based on the reported net assets of the Fund at 31 March 2022, the overall materiality level for the year ended 31 March 2022 is £293.0m (£268.3m in the prior year). We set a separate materiality level for the Fund Account statement because the value of transactions reported is lower than in the Net Assets Statement. Our materiality for the Fund Account is based on 10% of the higher of Contributions Receivable or Benefits Payable. Based on the reported values in the Fund Account for the year to 31 March 2022 our materiality level for the Fund Account is £90.0m.

After setting materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Panel that is consistent

with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £8.79m based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Karen Murray.

## Reporting to the Audit Panel

The following three types of audit differences will be presented to the Audit Panel:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





## Appendix: Key communication points

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# Appendix: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you. Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum; and
- Our Audit Completion Report.

These documents will be discussed with management prior to being presented to yourselves and their components will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



# Appendix: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to fraud communications: <ul style="list-style-type: none"> <li>• Enquiries of the Audit Panel to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• A discussion of any other matters related to fraud.</li> </ul>	Audit Planning and Clearance meetings, Audit Completion Report and discussion at Audit Panel meetings.
With respect to misstatements: <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion;</li> <li>• The effect of uncorrected misstatements related to prior periods;</li> <li>• A request that any uncorrected misstatement is corrected; and</li> <li>• In writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report

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# Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Panel in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>

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# Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Panel into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Panel may be aware of.	Audit Completion Report and the Audit Panel meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• The adequacy of related disclosures in the financial statements.</li> </ul>	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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# Contact

## Mazars

One St. Peter's Square

Manchester

M13DE

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

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# Agenda Item 8.

<b>Report to:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Reporting Officer</b>	Stuart Fair – Director of Finance
<b>Subject:</b>	<b>TREASURY MANAGEMENT STRATEGY 2023-24</b>
<b>Report Summary:</b>	<p>The Treasury Management service is an important part of the overall financial management of the Council's affairs. At 31 March 2022 the Council had £144m of investments which need to be safeguarded and £140m of long term debt, which has been accrued over the years to help to fund the Council's capital investment programmes. The significant size of these amounts requires careful management to ensure that the Council meets its balanced budget requirement under the Local Government Finance Act 1992. Generating good value for money is therefore essential, in terms of both minimising the cost of borrowing and maximising the return on investments.</p> <p>Under the Local Government Act 2003, the Department for Communities and Local Government issued in March 2010 revised "Guidance on Local Government Investments". The 2003 Act requires an authority "to have regard" to this guidance. Part of this guidance is that "A local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year, which may vary at any time. The strategy and any variations are to be approved by the full Council and are to be made available to the public." This strategy is set out in <b>Appendix 1</b></p>
<b>Recommendations:</b>	Members of the Audit Panel are asked to note the Treasury Management Strategy for 2022/23, which was approved by Full Council on 28 February 2023.
<b>Corporate Plan:</b>	The Budget aligns with the priorities of the Corporate Plan and Community Strategy.
<b>Policy Implications:</b>	The Treasury Management Strategy supports the policy choices that the Council intends to pursue to support the Corporate Plan and Medium Term Financial Plan.
<b>Financial Implications:</b>	These are the subject of the report.
<b>(Authorised by the statutory Section 151 Officer &amp; Chief Finance Officer)</b>	
<b>Legal Implications:</b>	The strategy must be prepared in accordance with the Council's financial regulations. The Council is required by statute to set and maintain a balanced budget, careful management of the finances allows the Council to achieve this and this report provides a means for Members to carefully monitor and question the Council's strategy.
<b>(Authorised by the Borough Solicitor)</b>	
<b>Risk Management:</b>	Failure to properly manage and monitor the Council's loans and investments could lead to service failure and financial loss.

**Access to Information:**

The report is to be considered in public.

**Background Information:**

The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner.



Telephone: 0161 342 2929



e-mail: [heather.green@tameside.gov.uk](mailto:heather.green@tameside.gov.uk)

# APPENDIX 1

## TREASURY MANAGEMENT STRATEGY

### 1. INTRODUCTION

- 1.1 The Treasury Management service is an important part of the overall financial management of the Council's affairs. At 31 March 2022 the Council had £144m of investments which need to be safeguarded and £140m of long term debt, which has been accrued over the years to help to fund the Council's capital investment programmes. The significant size of these amounts requires careful management to ensure that the Council meets its balanced budget requirement under the Local Government Finance Act 1992. Generating good value for money is therefore essential, in terms of both minimising the cost of borrowing and maximising the return on investments.
- 1.2 Under the Local Government Act 2003, the Department for Communities and Local Government issued in March 2010 revised "Guidance on Local Government Investments". The 2003 Act requires an authority "to have regard" to this guidance. Part of this guidance is that "A local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year, which may vary at any time. The strategy and any variations are to be approved by the full Council and are to be made available to the public." This strategy is set out in **Appendix 1A**.
- 1.3 A revised edition of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice was produced in December 2021. The guidance arising from this Code has been incorporated within this report. The Codes require a Capital Strategy report to be produced in addition to the Treasury Management Strategy. The Capital Strategy is the Council's framework for the allocation and management of capital resources, taking into account the Council's Corporate Plan. It aims to provide a long term context in which capital decisions are made, the approach for governance for those decisions, and information on the Council's approach towards treasury management and other investments.
- 1.4 The Treasury Management Strategy also sets out the estimated borrowing requirement for the Council together with the strategy to be employed in managing the debt position.
- 1.5 The Local Government Act 2003 is the major legislation governing borrowing and investments by local authorities. The capital financing section of the Act says a Local Authority may borrow money:
- (a) For any purpose relevant to its functions under any enactment; or
  - (b) For the purposes of the prudent management of its financial affairs.
- 1.6 The Council is only permitted to borrow to finance its capital investment programme, and cannot borrow to fund on-going day to day expenditure, which must be funded from day to day income sources such as council tax, business rate income, government grant or reserves. If an authority does borrow for capital investment purposes it has a duty to ensure that its borrowing is affordable, sustainable and prudent, and must set its own limits on how much it may borrow. The method of doing this is set out in the Prudential Code for Capital Finance in Local Authorities.
- 1.7 The borrowing limits set by the Council are based on the possibility of borrowing in advance of need, should interest rates be such that it is advantageous to do so. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (as measured by the Capital Financing Requirement), has not been fully funded with loan debt as surplus cash balances have been utilised instead. Despite the rapidly rising interest rate environment, this strategy remains prudent as investment returns continue to

be low in comparison to the rates charged on borrowing, thus creating a high cost of carry<sup>1</sup> for any borrowing taken up. The Council, along with its advisors, Link Group, will closely monitor rates and take up borrowing at the most advantageous time possible.

- 1.8 Against this background and the continuing risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach in changing circumstances. Borrowing will be undertaken on an assessment of the situation at the time.

## **2. CODES OF PRACTICE**

- 2.1 The Council's treasury activities are strictly regulated by statutory requirements, a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised 2021) and the Prudential Code. The Council has adopted the CIPFA Code of Practice on Treasury Management. Part of this code is for the Council to set out Treasury Management Practices (TMPs). These are in place and are being adhered to.
- 2.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital plans of local authorities are affordable, prudent and sustainable and to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports these objectives.
- 2.3 To demonstrate that local authorities have fulfilled these objectives the Prudential Code sets out the indicators that should be used, and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios as these are for the local authority to set itself. The Prudential Indicators required by the Code are designed to support local decision making and are not comparative indicators.
- 2.4 This report recommends specific indicators for approval and an affordable borrowing limit for 2023/24.
- 2.5 Where appropriate the Council may undertake borrowing for external organisations, and this will be on the basis that the revenue costs are fully reimbursed. This will be done purely for policy reasons.
- 2.6 Prudential Indicators have been set with regards to: affordability, prudence, sustainability, value for money, stewardship of assets, service objectives and practicality.
- 2.7 Local authorities are required to encompass all aspects of the Prudential Code that relate to affordability, sustainability and prudence. When making a decision to invest in capital assets, the Council must ensure that it can meet both the immediate and long-term costs to ensure the long-term sustainability of its assets.
- 2.8 The Prudential Code requires local authorities to consider wider management processes i.e. option appraisal, asset management planning, strategic planning and achievability in accordance with good professional practice. The Strategic Planning and Capital Monitoring Panel and Executive Cabinet are responsible for these areas.

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<sup>1</sup> Cost of carry is the difference between the rate of interest paid on a loan against the rate of return received by investing that money. Therefore if a Council has cash balances already, and then takes some long term borrowing, the impact will be to increase the level of cash balances in the short term. For Tameside a 25 year loan would cost c4.7% but could only be invested at around 3.5% resulting in a cost of carry of 1.2% per annum. Whilst cash balances are high it is more prudent to utilise cash balances to fund capital schemes and delay the decision to borrow.



### **Setting of Prudential Indicators**

- 2.9 The Prudential Indicators for 2023/24 and the following two years must be set before the beginning of the forthcoming year and requires approval by Council as part of the budget approval process. The Section 151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the Council for consideration.
- 2.10 The system requires a process for controlling prudential borrowing to ensure that all council borrowing remains affordable. The Section 151 Officer is responsible for the centralised control and recommendations for borrowing. The Council is currently in an ‘under-borrowed’ position meaning that capital expenditure funded from borrowing exceeds the actual level of debt taken up. During 2019/20 £30m of additional prudential borrowing was taken up in accordance with the planned strategy. No further long-term borrowing has been taken up since this and none is planned in 2023/24, due to a combination of high market rates and the Council’s relatively healthy cash position. The Council’s current projected under-borrowed position is £57m, which provides an estimated annual saving of £0.7m in interest costs at prevailing rates. This is further detailed in paragraph 11.1.
- 2.11 No prudential borrowing is planned in 2023/24 but the Council will review its available resources on a regular basis throughout the year. The financing of the capital programme at the end of the financial year takes into account an assessment of the capital grants, contributions and capital receipts available at that time which may provide a more cost effective method of financing the Council’s capital expenditure. The Council will endeavour to keep Prudential Borrowing and the associated costs to a minimum by utilising other available resources.

### **Required indicators**

- 2.12 The required Prudential Indicators are set out in **Appendix 1E** together with the methodology used to calculate them. The Prudential Indicators have been based on the planned level of borrowing set out above.
- 2.13 A new “Liability Benchmark” Prudential Indicator has been included as per the requirements of the revised Codes. This is intended to support the financing risk management of the capital financing requirement in chart form.
- 2.13 The monitoring frequency for each Prudential Indicator is determined individually. Some are monitored daily as treasury management transactions take place and others less frequently. For some indicators e.g. net external borrowing, trigger points will be set within the monitoring process to highlight when the indicator limits could be breached and allow corrective action to be taken
- 2.14 The Section 151 Officer will report to Members on the performance of all Prudential Indicators quarterly as part of the Capital Programme monitoring process. Some of the Prudential Indicators may need to be revised during the year and these will require approval by the Audit Panel. The indicators will continually change due to factors other than the level of borrowing e.g. capital expenditure will change when additional grant resources are received.

## **3. NEED TO BORROW**

- 3.1 The Council's long term borrowing requirement in any year depends on the following factors:-
- (a) Existing loans which are due to mature during the year. These will include external loans, and any reduction of internal resources that are temporarily being used to finance capital expenditure.

- (b) The amount of capital expenditure that the Council has determined should be financed by borrowing. Under the Prudential Code on Borrowing, the Council may determine its own levels of borrowing and this is set by the Council as part of the main budget process. The Council is able to borrow in advance of its requirements, when it is considered beneficial to do so.
  - (c) The amount of outstanding debt required to be repaid during the year, including the "Minimum Revenue Provision" (MRP) and additional voluntary MRP to repay prudential borrowing.
- 3.2 The Council has some flexibility to borrow funds for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints.
- 3.3 Any borrowing in advance undertaken will be made within the constraints of the Prudential Code. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the annual reporting mechanism (the operational limit). The Council may also borrow on a short term basis to finance temporary shortfalls in cash flow.
- 3.4 In addition to this, the Council can fund capital expenditure by using internal cash balances. Although borrowing is not undertaken to meet this expenditure, it has the effect of reducing the Council's investments, and therefore changing the net interest payable.

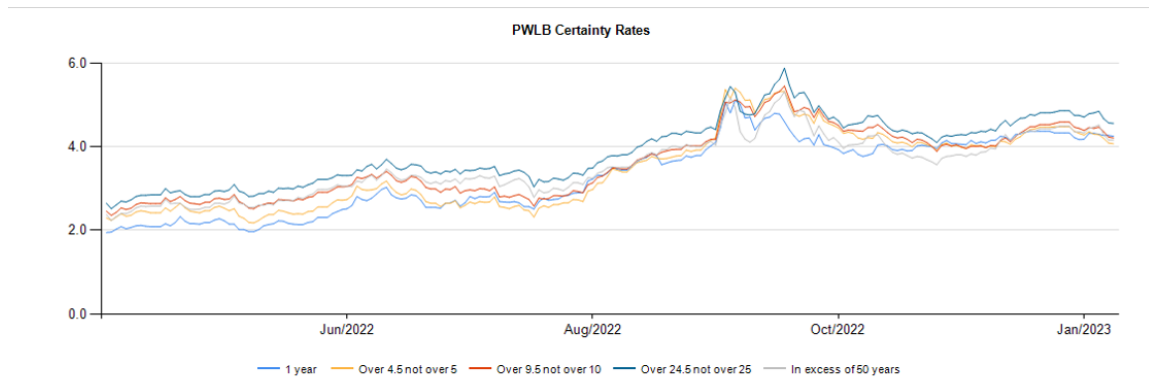
#### **4. TYPES AND DURATION OF LOANS**

##### 4.1 There are various types of loan available:-

- (a) *Short term fixed*  
These are loans of less than one year duration where the interest rate is agreed at the start of the loan and remains the same until the loan matures. The duration may last from 1 day to 364 days.
- (b) *Short term variable*  
Less than one year, but the interest rate may change during the life of the loan, usually in line with the market.
- (c) *Long term fixed*  
As (a), but greater than one year (may be up to 50 years).
- (d) *Long term variable*  
As (b), but life normally between 1 and 10 years.
- (e) *LOBOs (Lender's Option Borrower's Option)*  
These are bank loans where the interest rate is fixed for a number of years (often with an automatic increase built in). At the end of this fixed rate period, the bank may (at pre-set anniversaries) take up an option to change the interest rate. The borrower (Tameside) then has the option to repay the loan if it does not want to pay the new interest rate. The Council can only repay the loan prior to the maturity date without penalty if the lender has taken up their option.

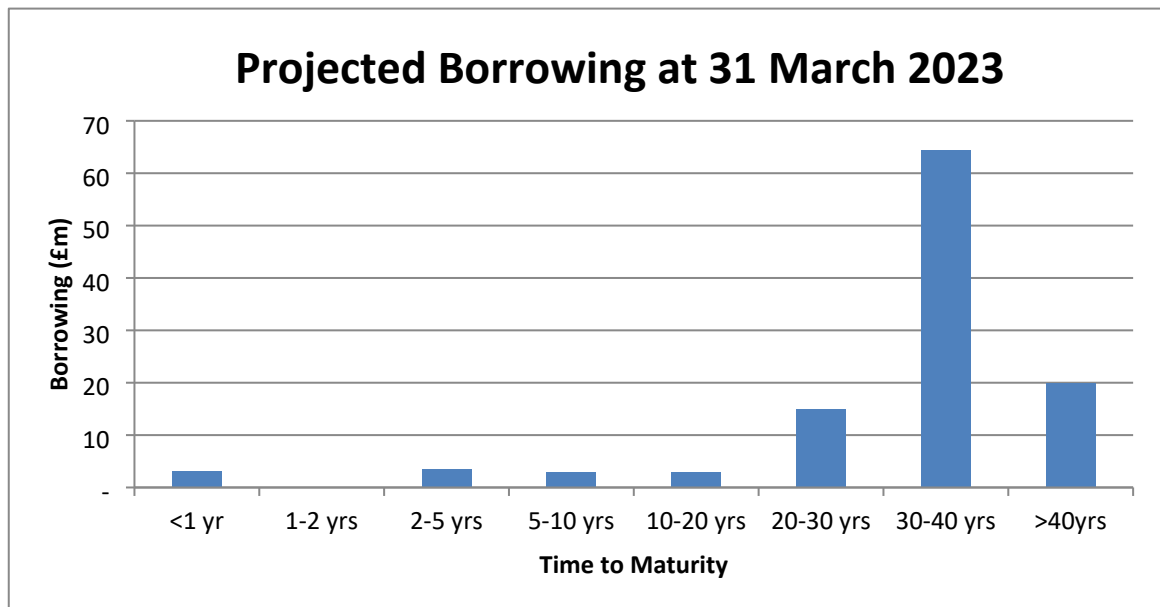
- 4.2 Interest rates are continually changing and are determined by economic and market conditions. Short term variable rates tend to reflect the current Bank of England Minimum Lending Rate (Bank Rate), but can vary (sometimes by more than 1%) due to market conditions. The on-going uncertainty in the financial markets has caused considerable

volatility, but the recent trend has been an increase in PWLB rates in line with increasing Gilt rates and the wider economic environment of increasing rates.



4.3 Long term fixed rates are based on Government Gilts (Bonds issued by the Government which pay a fixed rate of interest) and reflect the future expectations of base rates, inflation and risks within the general economy. They may be markedly different from short term rates, and they may also be volatile.

4.4 Tameside’s loan portfolio as at 31<sup>st</sup> March 2023, assuming no further borrowing is taken, will contain £99m of long term fixed loans from the PWLB, £10m long term fixed bank loans, and £30m of LOBOs. The following graph outlines the maturity profile, which shows that there is currently no refinancing risk borne by the Council, whereby it would have to repay any of its existing loans:



## 5. SOURCES OF BORROWING

5.1 Loans to fund the borrowing requirement may be raised from any source approved by the Local Government Act 2003.

The main sources currently available to Tameside are:-

- a. The Public Works Loan Board (PWLB) (£99m est. at 31<sup>st</sup> March 2023)
- b. Banks, Building Societies and other financial institutions (£40m est. at 31<sup>st</sup> March 2023)
- c. Other Local Authorities (est. nil at 31<sup>st</sup> March 2023)

d. Internal cash funds and balances (£57m est. at 31<sup>st</sup> March 2023).

Of these, by far the greatest proportion of borrowing taken up is normally obtained from the PWLB.

- 5.2 The PWLB is, in effect, the Government, and loans raised from this source are generally the cheapest available for their type and duration. Although loans from the PWLB may be obtained at a variable rate of interest, Tameside has normally borrowed at fixed rates and holds no variable PWLB debt.
- 5.3 Borrowing for fixed periods means that the average rate payable is not subject to large year on year volatility which could occur if rates were linked to the base rate of interest.
- 5.4 Internal funds, such as the Insurance Fund, are paid interest in line with short term rates.
- 5.5 Traditionally the strategy employed by Tameside and most other Local Authorities is to borrow long term at fixed rates of interest.
- 5.6 Where appropriate the Council may undertake borrowing for external organisations for policy reasons, and this will be on the basis that the revenue costs are fully reimbursed. The Council has previously carried out such borrowing for Active Tameside.

## **6. RESCHEDULING OF LONG TERM DEBT**

- 6.1 Rescheduling involves the early repayment and re-borrowing of different term PWLB loans, or converting fixed rate loans to variable and vice versa. This can involve paying a premium or receiving a discount, but is intended to reduce the overall interest burden, since the replacement loan (or reduction of investment) is normally borrowed at a lower interest rate.
- 6.2 The use of rescheduling has traditionally been a valuable tool for the Council, but its success depends on the frequent movement of interest rates, and therefore it cannot be easily estimated for. It will continue to be used when suitable opportunities arise, in consultation with our treasury management advisors, although such opportunities may not occur.
- 6.3 However, the changes made by the PWLB in 2010 to introduce separate rates for the premature repayment of debt and the increase in the cost of new PWLB borrowing by approximately 1%, has significantly reduced the ability to re-schedule debt. No re-scheduling has been undertaken by the Council since these changes occurred.
- 6.4 The PWLB has continued a scheme to allow a 0.20% reduction on the published borrowing rates, known as the “certainty rate”, for Councils that provide indicative borrowing requirements for the next 3 years. The Council has provided this information and has therefore protected its eligibility for the certainty rate. This does not however commit the Council to a particular course of action.
- 6.5 With the current yield curve, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Section 151 Officer and our treasury management advisors will monitor prevailing rates for any opportunities during the year.
- 6.6 Although a pro-active approach is taken to identify opportunities to re-schedule debt, no such an opportunities have arisen so far in 2022/23, or are foreseen in 2023/24 with the current interest rate climate.
- 6.7 Consideration will also be given to identify if there is any potential for making savings by utilising cash balances to repay debt prematurely, as short term rates on investments are likely to be lower than rates paid on current debt.

## 7. CURRENT POSITION – 2022/23

- 7.1 The original estimate of interest payable for the 2022/23 financial year was £5.854m. It is anticipated that the outturn position for the year will be £0.123m below this budget, as no additional borrowing has been taken up in year.

## 8. TAMESIDE MBC'S ESTIMATED NET DEBT POSITION AT 31 MARCH 2023

- 8.1 Following transactions and activity expected prior to the financial year end it is anticipated that at the end of the current financial year, the Council's net borrowing position will be:-

	<b>£m</b>
PWLB	99.227
Market Loans (incl. LOBOs)	<u>40.000</u>
Total External Borrowing	139.227
Less Active Tameside Debt	-0.202
Less Airport Debt	-0.550
Less Trust Funds, Contractor Deposits, etc.	-0.155
Less Investments (est.)	<u>-100.000</u>
Net Debt Outstanding	38.320

- 8.2 The estimated position assumes the Council will not take up any further borrowing during 2022/23, to meet the forecast outstanding borrowing requirement as at 31 March 2023 (£57m) and no advanced borrowing for 2023/24 or future years. By postponing borrowing and utilising cash balances, the Council reduces counterparty risk and reduces the cost of carry, as although investment returns have increased they remain lower than borrowing costs.

- 8.3 Prudential borrowing of £4.280m was taken up on 25 July 2008 from the PWLB on behalf of the Tameside Sports Trust (now Active Tameside), to enable facility improvements. The costs related to this borrowing are met by reducing the annual Council's grant paid to Active Tameside by an equal amount. The outstanding amount at 31 March 2023 will be £0.202m.

- 8.4 The Council's total estimated net debt is £38.320m

## 9. 2023/24 BORROWING REQUIREMENT

- 9.1 As stated earlier the authorised limits for debt under the Prudential Code allow for borrowing in advance. This will only be done if interest rates for longer term loans are advantageous to the Council and the counterparty risk to the Council on investments is acceptable, or such borrowing will afford an opportunity for debt rescheduling.

- 9.2 During 2023/24 it is estimated that the following requirement will be needed in respect of the general fund:-

	<b>£m</b>
Capital expenditure (financed by loan)	2.056
Loans maturing	<u>3.202</u>
	5.258
Less MRP repayments	<u>-5.065</u>
Total potential borrowing requirement	<u>0.193</u>

- 9.3 Therefore the additional outstanding capital borrowing need of the Council will reduce by £0.193m (capital expenditure less provision for debt repayments) during 2023/34.

9.4 The budget for 2023/24 shows that loans and investments outstanding during the year will generate estimated gross interest charges of £5.854m. Under current Local Government accountancy rules no interest is payable in respect of the Council's capital receipts and revenue balances. This has no net effect on the overall finances of the Council.

## 10. BORROWING STRATEGY

10.1 The Council has the following anticipated borrowing requirement:-

	2022/23 £m	2023/24 £m
Opening CFR	199.265	194.975
Opening Outstanding Borrowing Requirement	59.759	56.691
Capital Expenditure Financed by Borrowing	0.711	2.056
Loans Maturing	1.222	3.202
Less: MRP	-5.001	-5.065
Annual Requirement	-3.068	0.193
New Borrowing in Year	0.000	0.000
Closing CFR	194.975	191.966
Closing Outstanding Requirement	56.691	56.884
Estimated Annual Cost*	0.680	0.683

\*note: Estimated cost is the net of interest charges from PWLB less interest earned on cash balances. This is only incurred if borrowing is undertaken.

10.2 As shown above, the Council is currently maintaining an under-borrowed position estimated to be £57m at 31<sup>st</sup> March 2023. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash has been used. This strategy is prudent as investment returns are low and counterparty risk is high. The Council continues to have a high level of investments, and it is expected that these will continue during the next financial year. The Council will seek to maintain levels of external debt as low as possible, consistent with a consideration of wider risks and benefits. As illustrated in the table above, the Council will save an estimated £0.680m in 2022/23 and £0.683m in 2023/24 as a result of not taking up this borrowing.

10.3 The uncertainty over future interest rates and concerns over counterparty credit worthiness increases the risks associated with treasury activity. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach in changing circumstances. PWLB loans may be borrowed in order to reschedule debt or meet the outstanding borrowing need as is felt to be appropriate. The possibility of deferring borrowing until later years to reduce our level of investments and associated counterparty risk will be considered.

10.4 As a result the Council will take a cautious approach to its borrowing strategy and all opportunities explored in conjunction with our treasury management advisors. Borrowing decisions will be based on the circumstances prevailing at the time.

10.5 The Section 151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks outlined above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

10.6 The borrowing rules for the PWLB mean that we are able to borrow our full requirement

from them. However, if interest rates in respect of LOBOs, or other market loans are sufficiently attractive, these may be used for Tameside.

## 11. INTEREST RATES

11.1 The borrowing and investment strategy outlined in the report is based on the following central view forecast, provided by our treasury management advisors (Link Group), showing the movement in longer term interest rates for borrowing and movement in shorter term interest rates for investments.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
<b>BANK RATE</b>	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

11.2 Link Group have also provided an economic update which is included in **Appendix 1F**.

## 12. INVESTMENTS

12.1 The primary objectives of the Council's investment strategy are safeguarding the repayment of the principal and interest of its investments on time, then ensuring adequate liquidity, with the investment rate of return being the final consideration. The current investment climate continues to have one over-riding risk, counterparty risk. As a result of these underlying concerns officers are implementing a risk averse operational investment strategy.

12.2 The CIPFA Treasury Management Code and the DCLG Investment Guidance requires the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are a requirement to Member reporting, although the application of these is more subjective in nature. Additional background on the approach taken is attached at **Appendix 1C**.

12.3 These benchmarks are not limits and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Annual Report.

**Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

**Liquidity** – In respect of this area the Council seeks to maintain:

- Bank overdraft - £1.60m
- Liquid short term deposits of at least £5m available with a week's notice.

**Yield** - Local measures of yield benchmark is:

- Investments – Internal returns have previously been benchmarked against the 7 day

LIBID rate. However, with the replacement of LIBOR/LIBID with SONIA, these are now benchmarked against the SONIA overnight rate

- And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0.14%	0.26%	0.37%	0.52%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

- 12.4 Normally when the Council has surplus cash, this is invested to try to ensure that interest earned is optimised with minimal risk of capital loss. Higher interest rates are earned by investing any large amounts on the London money markets, rather than by leaving such sums with the Council's own bank. The Investment Strategy sets out the type of institutions with which the Council may deposit funds for this purpose. The list has been compiled to reflect the creditworthiness of these banks and building societies, rather than the rates of interest payable, as the safety of the asset is the most important consideration. Nonetheless, the interest received from these institutions is competitive.
- 12.5 The ongoing financial uncertainty has reinforced the need for the Council to ensure it adopts a security based approach to investment strategy.
- 12.6 The policy allows strategic investments up to £30m for more than 12 months, as reported in **Appendix 1A**.
- 12.7 In recent years the Council has had a high level of investments and therefore the investment strategy has been aligned with our debt strategy. The strategy for repayment of debt has been dependent on the movement of long term interest rates, and in favourable circumstances this could mean the repayment of tranches of debt. Investments have therefore been managed in-house in order to finance any repayments if necessary. It is expected that this strategy will continue.
- 12.8 As established in the Mid-Year Treasury Management Activities Report, the Council applies the creditworthiness service provided by its advisors, Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- Credit watches and credit outlooks from credit rating agencies;
  - CDS spreads to give early warning of likely changes in credit ratings;
  - Sovereign ratings to select counterparties from only the most creditworthy countries.
- 12.9 The Council also holds investments in Money Market Funds (MMFs) which are AAA rated and act, in a similar way to unit trusts, to spread the risk of default across a number of underlying institutions. This type of fund is tightly regulated and viewed as a safe investment.
- 12.10 EU reform means that the current class of MMF used by the Council - Constant Net Asset Value (CNAV) - were replaced by a new Low Volatility Net Asset Value (LVNAV) class of fund from 21 January 2019. LVNAV funds operate under stricter conditions than the existing CNAV funds, meaning the underlying investments must be valued within a smaller "collar" than with CNAV funds, and also have shorter liquidity limits. This has had no impact on how the Council uses such funds, and no negative impact on their security.
- 12.11 The Council has a deposit account with the Government Debt Management Office (DMO). As this facility is underwritten by the government, the rates of interest offered by the DMO



are substantially below the current market rates. This facility has not been used in 2022/23.

12.12 If concerns over counterparty risk reduce and market conditions are judged suitable, long term borrowing may be taken up by the Council in advance of when it is required for capital purposes. In these circumstances the excess cash will be invested in line with the Council's prudent investment objectives, with security of the asset the highest priority. However, the Council is not allowed to borrow for the express purpose of reinvesting this cash in money market investments to make a return.

12.13 Although security and liquidity are both given priority over yield, the Council still manages to achieve a healthy rate of return on its investments. In 2021/22 the Council achieved a return of 0.30% versus a LIBID/SONIA benchmark of 0.04%, a gain of £334k. In 2022/23 to December 31, a return of 1.43%% has been earned against a SONIA of 1.62%. In the current rising interest rate environment SONIA increased faster than interest returns due to the Council's portfolio involving fixed investments at lower than the prevailing rates. Once interest rates stabilise it is anticipated that returns should again exceed benchmark.

### **13 INVESTMENTS – PROPOSED CHANGES**

13.1 There are no proposed changes to the Council's investment strategy for 2023/24.

### **14 TREASURY MANAGEMENT ADVISORS**

14.1 The Council uses Link Group as its treasury management advisors. Link provides a range of services which include:

- Technical support on treasury matters and capital finance issues;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

14.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Council. This service is subject to regular review.

### **15 GREATER MANCHESTER PENSION FUND**

15.1 The Council also carries out treasury management activities on behalf of Greater Manchester Pension Fund (GMPF). GMPF holds cash in accordance with its strategic asset allocation as determined by the GMPF Management Panel which may be increased or decreased on a tactical basis by the external investment managers within risk parameters also set by the Panel. As at 31 December 2022 the Pension Fund cash totalled around £571m.

15.2 The GMPF counterparty list mirrors that of Tameside MBC, along with the following operating constraints:

- a) The maximum duration for an investment is 1 year.
- b) The maximum investment per counterparty is £75m

15.3 Along with these limits, further constraints are in place for the different categories of cash.

The bulk of the fund managers' allocations must be available at short notice; therefore the following constraints are enforced:

- a) 35% must be available within one week
- b) 70% must be available within two weeks

15.4 Additionally, any strategic allocation to in-house cash must be kept entirely liquid and immediately available.

## **16. RECOMMENDATIONS**

16.1 That the Treasury Management Strategy be noted and the proposed borrowing strategy be supported.

16.2 That the Annual Investment Strategy (Appendix 1A) be recommended for approval by the full Council

16.3 That the MRP policy (Appendix 1D) be recommended for approval by full Council.

# APPENDIX 1A

## ANNUAL INVESTMENT STRATEGY: FINANCIAL YEAR 2023/24

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

### **Investment Objectives:**

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. This includes monies borrowed for the purposes of expenditure in the reasonably near future (i.e. borrowed 12-1 months in advance of need). The Council's investment priorities are

- (a) the **security** of capital and
- (b) **liquidity** of its investments.
- (c) **optimum return** on its investments commensurate with (a) and (b).

The former Office of the Deputy Prime Minister regulations stated that the borrowing of monies purely to invest or on-lend and make a return is unlawful, and therefore this Council will not engage in such activity.

### **Creditworthiness policy**

This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years (UK Government debt or equivalent).
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The Link Group creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link Group's creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Group. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

All institutions which meet the criteria may be included on our lending list at the discretion of the Section 151 Officer, although meeting the criteria does not guarantee this.

The criteria may only be changed by the Executive Cabinet.

**Monitoring of credit ratings and other market information:**

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link Group's creditworthiness service.

If a counterparty or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria or other market information leads the concerns over the credit quality of that entity, then the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately (however, existing fixed investments must remain in place until they mature).

If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion may be considered by the Section 151 Officer for approval.

**Institutional Limits for Investments:**

The Council has previously set limits on investments with individual institutions. These have been set for the Council and the Pension Fund combined. These limits (which will remain in force unless changed by the Executive Cabinet) are:

Currently the overall limit invested by Tameside and the GM Pension Fund in one institution should not exceed a combined amount of £90m. Of this £95m, a maximum of £75m may be invested by the Pension Fund, £15m by Tameside.

At any time the maximum should not exceed 20% of the total amount available for investment (at the time of the investment - individually for the Council and the Pension Fund), or the above limits, whichever is less. However, where total investments are less than £100m for the Pension Fund and £25m for Tameside, the upper limits will be £20m and £5m respectively.

The counterparty limit for UK Government bodies (e.g. local authorities and other similar bodies) is £50m. Any such investment would still be highly secure due to the Government-backed nature of these entities.

**Investments defined as capital expenditure:**

The acquisition of share capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'. The acquisition of loan capital in a body corporate has recently been relaxed so that it is not treated as capital expenditure and can be used for treasury management activities.

A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan has made for policy reasons (e.g. to a registered social landlord for the construction/improvement of dwellings) or an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

The Council provided a loan of £4.280m (funded by Prudential Borrowing) to Active Tameside in 2008/09, to invest in the refurbishment of three existing Leisure Centres within the Borough. This loan was for policy reasons and not for treasury management purposes. The Council also has an investment in Manchester Airport as outlined below. These investments were not part of the Treasury Management strategy.

During 2009/10, Manchester Airport re-negotiated the terms of its loan arrangement with the 10 Greater Manchester Districts; as a result of this agreement the 10 Districts have taken responsibility to service the former Manchester Airport share of the GMMDAF and Terminal 2 Loan Debt. The Airport pays the Districts an annual fixed interest of 12% on the outstanding balance at 9 February 2010. The Airport has agreed to repay the loan to the Council by the end of the agreement in 2055. The re-negotiated loan arrangement was not for treasury management purposes.

**Manchester Airport**

The Council has an historic 3.22% shareholding in Manchester Airport Group. This shareholding has been valued at £23.4m as at 31 March 2022. Prior to the COVID-19 pandemic, the Council was receiving significant dividend income from this investment (£6.4m in 2019) which was a key item in the Council's Medium Term Financial Strategy.

In recent years, further additional investment in Manchester Airport has been approved:

- A capital investment of £11.3m in Manchester Airport was approved by Executive Cabinet in February 2011. The investment takes the form of a shareholder loan which was funded from reserves. Interest will be paid at a rate of 10% per annum, which will generate a revenue stream for the Council of approximately £1m (after allowing for the loss of interest earned on cash used

to fund the investment) which will support the revenue budget.

- In February 2019, Executive Cabinet approved an equity investment of £5.6m in Manchester Airport funded by prudential borrowing. The investment is expected to generate revenue income through returns of around 3.25% (after taking account of borrowing costs and debt repayment). It was originally envisaged that this income would begin to be received from 2021/21 onwards, although no amounts are yet assumed in the Medium Term Financial Plan (MTFP). The economic impact of COVID-19 is likely to mean that income from this investment will not be generated for a number of years and will be dependent on the speed and scale of recovery in the Aviation Sector
- In April 2020, Executive Cabinet approved a further investment of £9.7m in Manchester Airport in the form of an equity loan, which will be funded by prudential borrowing. The loan is intended to provide financial stability to Manchester Airport Group and ensure it is best-placed to react and rebuild business operations as Covid restrictions are lifted. The investment completed in June 2020 and will generate revenue income through interest earned of 10% per annum

The COVID-19 pandemic had a significant impact on the Aviation Industry, however 2022 saw sustained recovery, with growth trends expected to continue in 2023. Interest on loans and investments with MAG will continue to be accrued, however the annual dividend is not expected to be payable for a number of years

### **Provisions for Credit-related losses**

If any of the Council’s investments appeared at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

### **Investment Strategy to be followed:**

Based on its cash flow forecasts, the Council anticipates its fund balances in 2023/24 to range between £60m and £150m.

Use of investments for rescheduling purposes, or deferring borrowing could substantially reduce these holdings, whereas borrowing earlier than required could increase them.

The minimum percentage of its overall investments that the Council will hold in short-term investments is 50%.

The current financial climate provides operational difficulties. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggest shorter dated investments would provide better security.

The money market interest rates will be constantly monitored, and with the advice of our treasury advisors, the length of investments will be determined in accordance with our own views of future rate movements. In this way we would hope to optimise our investment returns.

### **Use of Specified and Non-Specified Investments during the Financial Year**

There are a number of types of investments which the Council could use. These are outlined in the following tables

#### **Specified investments:**

All such investments shall be in sterling with a maximum maturity of 1 year with institutions of high credit quality.

	<b>Minimum Criteria</b>	<b>Credit</b>
Term Deposits (including bank cancellable deposits and certificates of deposit) with credit – rated deposit takers (banks and building	Per Link Group	

societies) *	
Term Deposits with the UK Government including Treasury Bills or other Local Authorities	N/A
Money Market Funds	AAA
Debt Management Agency Deposit Facility	N/A

\*If forward deposits are made, these will be for a maximum of 1 year from the date of the deal.

Bank cancellable deposits cover a variety of bank deposits where the bank holding the deposit, has the option of repaying at pre-specified times. Such investments normally attract a higher original interest rate.

### Non – Specified Investments:

A maximum of 50% (at the time the investments are made) will be held in aggregate in non – specified investments. The only types of non-specified investments, with high credit quality, that the Council may use during 2023/24 are:

	Minimum Criteria	Credit
Term Deposits exceeding 1 year (including bank cancellable deposits) with credit – rated deposit takers (banks and building societies)	Per Link Group	
Term Deposits with the UK Government or other Local Authorities exceeding 1 year	N/A	
UK nationalised and part nationalised banks (currently Lloyds Banking Group and Royal Bank of Scotland Group) – investments will be limited to a maximum period of 12 months	N/A	
The Council's own bankers if they fail to meet the basic credit criteria.	N/A	
Alternative (asset backed) Investments	N/A	

Investments of this nature will only be made with the approval of the Section 151 Officer and in line with our treasury management advisors' investment recommendations.

### Alternative Investments

A new class of “alternative investments” was added to the Council's list of non-specified investment instruments.

The motivation for this is increased diversification from the current concentration of credit risk on financial institutions, along with the potential for increased returns in the current low interest rate environment whilst still meeting the DCLG requirements regarding security, liquidity, and yield.

A variety of products are available that are secured against real assets such as green energy, timber, leisure, commercial property and private real estate. Thorough due diligence will need to be undertaken on any such products before any investment is made.

The available products fall within two categories; asset backed securities and asset backed pooled investment funds.

Asset backed securities are typically bespoke structures and can be unrated. This increases the need for due diligence, which will likely involve legal advice and also that of external auditors. Asset backed pooled investment funds involve the purchase of shares in a pooled fund or “fund of funds”. These are less bespoke and require less due diligence.

# APPENDIX 1B

## Credit and Counterparty Risk Management

### Specified Investments:

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

### Non-Specified Investments:

These are any investments which do not meet the specified investment criteria or exceeding one year, as outlined in the body of the report. A maximum of 50% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max. maturity period
<b>DMADF – UK Government</b>	N/A	<b>6 months</b>
UK Government gilts	UK sovereign rating	12 months
UK Government Treasury bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money market funds	AAA	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	Liquid
Local authorities	N/A	12 months (Specified) 5 years (Non Specified)
Term deposits with banks and building societies	Blue Orange Red Green No Colour	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	



# APPENDIX 1C

## Security, Liquidity and Yield Benchmarking

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – This benchmark is currently widely used to assess investment performance.

- Investments – Internal returns have previously been benchmarked against the 7 day LIBID rate. However, with the replacement of LIBOR/LIBID with SONIA, this will be replaced with the equivalent SONIA rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £1.600m
- Liquid short term deposits of at least £5m available with a week’s notice.

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poor’s). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch/Moody’s Standard and Poor’s long term rating category within each year according to the maturity of the investment.

Years	1	2	3	4	5
AAA	0.04%	0.09%	0.17%	0.25%	0.34%
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.25%	0.37%	0.52%

As set out earlier, the Council’s minimum long term rating will typically be “A-” meaning the average expectation of default for a one year investment in a counterparty with a “A” long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

## Minimum Revenue Position (MRP) Policy

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (Voluntary Revenue Provision - VRP).

Regulations require Full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the following MRP Statement. *Additions to the previous policy are in italics.*

Borrowing taken up prior to 1 April 2015 will be provided for using a straight-line method of calculating MRP. £15.215m will be provided for in equal instalments over 50 years, which will result in an annual charge of £3.704m. The debt will be extinguished in full by 31 March 2065. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

For borrowing taken up on or after 1 April 2015, MRP is to be provided for based upon the average expected useful life of the assets funded by borrowing in the previous year. The debt will be repaid on a straight-line basis over the average useful life calculated, meaning the debt will be fully extinguished at the end of period. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

For certain investment projects it may be deemed more prudent to use the asset life annuity method in order to calculate MRP. In this case the Council will use the annuity method, with the MRP based on the prevailing PWLB interest rate for a loan with a term equal to the estimated life of the project. If the Council uses capital receipts to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by this amount. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Section 151 Officer, taking into account forecasts for future expenditure and the generation of further receipts.

For any leases and any on-balance sheet Public Finance Initiative (PFI) schemes, the MRP charge will be equal to the principle repayment during the year, calculated in accordance with proper practices. *In previous years only finance leases were on balance sheet and contributed towards the MRP. However, following the adoption of IFRS 16 in April 2024, all leases will fall on balance sheet and impact the MRP calculation. The full impact of this change is yet to be determined but updates will be provided as part of the regular Treasury Management reporting process.*

There will be no MRP charge for any cash backed Local Authority Mortgage Scheme (LAMS) that the Council operates. As for this type of scheme, any future debt liability would be met from the capital receipt arising from the deposit maturing after a five year period. Any repossession losses for this type of scheme would be charged to a LAMS reserve.

The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that this provision is not necessary where there is a realistic expectation that the loan will be repaid. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor; typically long term depending on the life of the loan. The only expenditure consequence of a loan for an authority is the interest on its cash shortfall whilst the loan is outstanding, so provision for the principal amount would be over-prudent until such time as the assumption has to be made that the loan will not be repaid.

For any Equity Investment or other investments not specified above, the Council will have regard to the MHCLG Statutory Guidance on Minimum Revenue Provision.

The revised MHCLG MRP Guidance provides a disclosure item for any revenue resources over and above of the required MRP applied to capital expenditure within the MRP Policy. The disclosure of the amounts applied allows some flexibility in financing future capital programmes and the implications on the budget. Revenue resources applied to 31 March 2022 as overpayments or VRP (voluntary revenue provision) were £119m.

# APPENDIX 1E

## Prudential Indicators

### 1. Ratio of Financing Costs to Net Revenue Stream

Limit/Indicator	2023/24 %	2024/25 %	2025/26 %
Ratio of financing costs to net revenue stream	4.5	4.5	4.6

This ratio represents the total of all financing costs e.g. interest payable and minimum revenue provision (MRP) that are charged to the revenue budget as a percentage of the amount to be met from Government grants and taxpayers (net revenue stream).

This ratio has been calculated based on the future year's level of borrowing.

### 2. Capital Financing Requirement (CFR)

Limit/Indicator	2023/24 £000	2024/25 £000	2025/26 £000
Core Capital Financing Requirement	194,637	191,628	16,421
Other long term liabilities (e.g. PFI and leases)	89,080	84,388	79,612
Total Capital Financing Requirement	283,71	276,017	266,033

The Capital Financing Requirement is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet. The opening balance at 1 April 2023 has been estimated together with the movement in the Capital Financing Requirement for future years.

Following accounting changes the Capital Financing Requirement now includes any other long term liabilities (e.g. PFI schemes and leases) brought onto the balance sheet. Whilst this increases the Capital Financing Requirement, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

From the 2024/25 financial year a new accounting standard on leases (IFRS16) is to be implemented. This will result in a number of leases that would previously have been classified as operating leases being moved on to the Council's balance sheet. This in turn will result in an increase in the level of other long term liabilities and the total CFR. As the Council is still in the data gathering stage of implementing this new standard the level of this increase is not yet know. This indicator will therefore be updated mid-year as part of the regular Capital and Treasury Management reporting process.

The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

### 3. Capital Expenditure

Limit/Indicator	2023/24 £000	2024/25 £000	2025/26 £000
Capital expenditure	50,252	12	0

This is the estimate of the total capital expenditure to be incurred (from all funding sources) for future years and recommended for approval.

This estimate will continue to be updated as part of the monitoring process as new resources are subsequently identified.

#### 4. Incremental Impact of Capital Investment Decisions

Limit/indicator	2023/24 £	2024/25 £	2025/26 £
For the Band D Council Tax	0.27	1.05	1.05

This is the estimate of the net incremental impact of the capital investment decisions, based on the level of borrowing set out in the report and reflects the total cost of this additional borrowing (interest payments and minimum revenue provision), as a cost on Council Tax. The actual cost will depend on final funding. For every £1 increase on Band D properties, approximately £0.066m would be raised.

#### 5. Operational Boundary and Authorised Limit on External Debt and Other Long Term Liabilities

Limit/indicator	2023/24 £000	2024/25 £000	2025/26 £000
Operational Boundary for external debt	206,110	207,702	212,495
Authorised Limit for external debt	226,110	227,702	232,495

These limits include provision for borrowing in advance of our requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.

The limits are made up as follows:

Limit/indicator	2023/24 £000	2024/25 £000	2025/26 £000
Estimated 31 March 2023	139,227		
Previous year Operational Boundary		206,110	207,702
Add debt maturing in year	3,202	0	0
Add borrowing for 2023/24 and previous years' requirement not taken up	58,747		
Add borrowing in advance for 2024/25 and future years	10,000	10,000	10,000
Less already borrowed in advance for future years			
Less previous year maturing fall out		(3,202)	0
Less MRP	(5,065)	(5,207)	(5,207)
<b>Operational Boundary - borrowing</b>	<b>206,110</b>	<b>207,702</b>	<b>212,495</b>
Add allowances for cash flow etc.	20,000	20,000	20,000
<b>Authorised Limit - borrowing</b>	<b>226,110</b>	<b>227,702</b>	<b>232,495</b>

The allowance for cash flow is made up of 2 elements. (a). it is possible that a rescheduling exercise where we borrow prior to repayment could take place. We have allowed £10 million for this. (b). Normally the amount of investments that we currently hold would mean that there would be no need to borrow, however, an allowance of £10 million has been made for liquidity purposes.

We are also required to set operational boundaries and authorised limits for Other Long Term Liabilities (e.g. PFI schemes and finance leases), which are now shown on balance sheet, following recent accounting changes. The table below includes all current PFI schemes and finance leases in place, with an allowance of £1 million for any new agreements that may arise.

Limit/indicator	2023/24 £000	2024/25 £000	2025/26 £000
Operational Boundary for other long term liabilities	89,080	84,388	79,612
Add allowance for new agreements	1,000	1,000	1,000
Authorised Limit for other long term liabilities	90,080	85,388	80,612

The total authorised limit of £226 million (including both external borrowing and other long term liabilities) should be set as the Council's affordable borrowing limit for 2023/24 as required under the provisions of the Local Government Act 2003.

## 6. Gross Debt and the Capital Financing Requirement.

Limit/indicator	2023/24 £000	2024/25 £000	2025/26 £000
Core capital financing requirement	194,637	191,628	16,421
Gross borrowing	194,637	191,628	16,421

To ensure that medium term debt will only be for a capital purposes, the Council will ensure that the gross external borrowing does not, except in the short term, exceed the highest forecast capital financing requirement (CFR) in any one year.

## 7. Upper and lower limits on Interest Rate Exposures

Limit/indicator	2023/24 £000	2024/25 £000	2025/26 £000
Upper limit for fixed interest rate exposure	194,637	191,628	16,421
Upper limit for variable interest rate exposure	64,879	63,876	62,140

These limits are in respect of our exposure to the effects of changes in interest rates. The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

## 8. Maturity Structure of Borrowing for the Forthcoming Financial Year

These limits set out the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate.

	Upper %	Lower %	
Upper/lower limit for maturity structure	Under 12 months	15	0
	12 months and within 24 months	15	0
	24 months and within 5 years	30	0
	5 years and within 10 years	40	0
	10 years and above	100	50

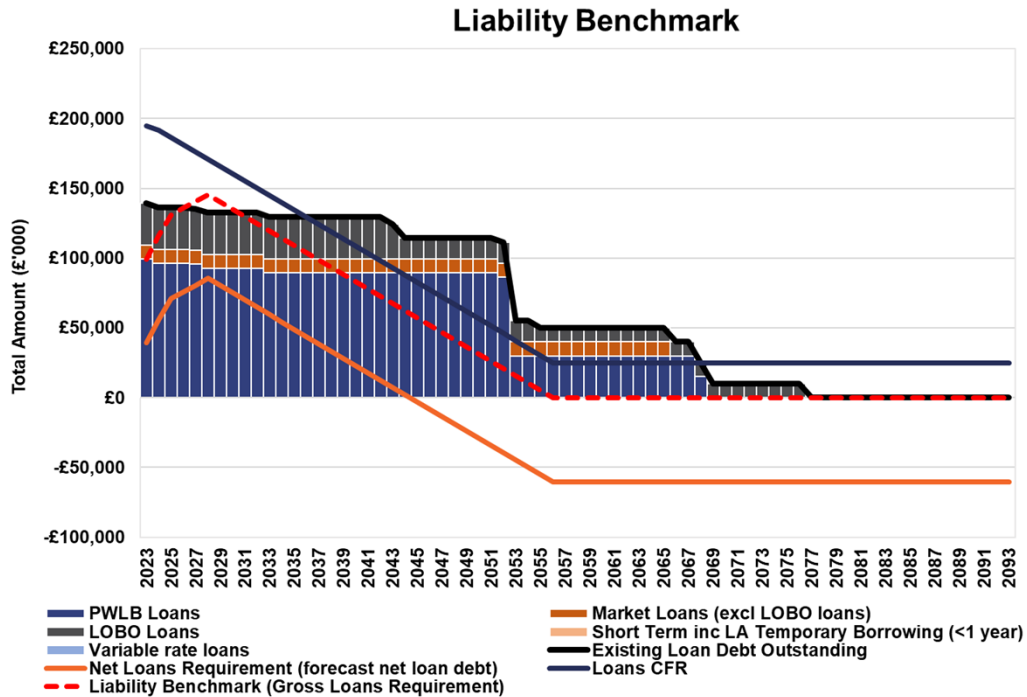
Future fixed rate borrowing will normally be for periods in excess of 10 years, although if longer term interest rates become excessive, shorter term borrowing may be used. Given the low current long term interest rates, we feel that it is acceptable to have a long maturity debt profile.

9. Limit for Total Principal Sums Invested for Periods Longer than 364 days

2023/24 £m	2024/25 £m	2025/26 £m
30	30	30

The Council can invest for periods greater than one year providing the counterparty is of sufficient credit quality as per the Link Group credit methodology. It is felt that the amounts shown above should be the limits maturing in future years.

10. Liability Benchmark



The liability benchmark is a new prudential indicator introduced for 2023/24. This gives a long term view of the Council's borrowing needs based on current commitments. This demonstrates that there is currently no borrowing need and the Council currently has a significant level of surplus cash which makes up its investment portfolio. If further schemes to be funded by borrowing are added to the Capital Programme in future then the benchmark will increase and more borrowing could potentially be required.

## Economic Update

The below update has been provided by the Council's treasury management advisors, Link Group:

*Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.*

*Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.*

*The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.*

*Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.*

*In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)*

*On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.*

### **PWLB RATES**

- *The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.*
- *We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.*

### **The balance of risks to the UK economy: -**

- *The overall balance of risks to economic growth in the UK is to the downside.*

### **Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- *The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.*
- ***The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.*
- ***The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.*
- *Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.*
- *Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields consequently.*



# APPENDIX 1G

## Glossary of Terms

**Authorised Limit** - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

**Bank Rate / Base Rate** - The rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

**Capital Expenditure** – The Council's spend on fixed assets, including investment in things such as buildings, infrastructure, and vehicles.

**Capital Financing Requirement (CFR)** - The CFR is aimed to represent the underlying need to borrow for a capital purposes and is calculated from the aggregate of specified items on the balance sheet. The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

**Counterparty** - one of the opposing parties involved in a borrowing or investment transaction.

**Credit Rating** - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

**Discount** - Where the prevailing interest rate is higher than the fixed rate of a longterm loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

**Fixed Rate** - A fixed rate of interest throughout the duration of the loan or investment. The rate is fixed at the start and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

**Gilts** - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

**LIBID (London Interbank Bid Rate)** - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months. This has recently been replaced with SONIA.

**LIBOR (London Interbank Offer Rate)** - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months. As with LIBID, this rate is no longer produced following the introduction of SONIA.

**Liquidity** - The ability of an asset to be converted into cash quickly and without any loss in value. The more liquid a business is, the better able it is to meet short-term financial obligations.

**LOBO (Lender Option Borrower Option)** - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

**Market** -The private sector institutions - Banks, Building Societies etc.

**Maturity Profile/Structure** - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to prevailing interest rates.

**Minimum Revenue Provision (MRP)** – MRP is the minimum amount which the Council must charge to its revenue budget each year, to set aside a provision for repaying borrowing. This is an annual revenue expense in a Council's budget.

**Monetary Policy Committee (MPC)** - the independent body that determines Bank of England Base Rate.

**Money Market Funds (MMFs)** - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

**Operational Boundary** – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short

times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

**Premium** - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

**Prudential Code** - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

**Prudential Indicators** – Indicators designed by CIPFA with the intention of demonstrating that the Council is operating in line with the Prudential Code. The Council sets its own limits and they are not intended to be an inter-authority comparative.

**Public Works Loan Board (PWLB)** - Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

**Sterling Overnight Index Average (SONIA)** - An interest rate benchmark which is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

**Treasury Bills** - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.



**Variable Rate** - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

**Volatility** - The degree to which the debt or investment portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

**Voluntary Revenue Provision (VRP)** – This is where the Council charges more to reserves than the minimum required as MRP. This can have a similar effect to reducing debt and can result in a lower future MRP charge.

**Yield Curve** - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

# Agenda Item 9.

<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Reporting Officer:</b>	Stuart Fair – Interim Director of Finance Caroline Barlow – Assistant Director of Finance
<b>Subject:</b>	<b>AUDIT PANEL FORWARD PLAN AND TRAINING</b>
<b>Report Summary:</b>	The report sets out the updated forward plan and training programme for the Audit Panel for 2023/24.
<b>Recommendations:</b>	Members are asked to: <ol style="list-style-type: none"><li>1) Approve the updated work programme, including training, as set out in <b>Appendix 2</b>; and</li><li>2) Note the core functions outlined in Section 2 of the report and the updated CIPFA Position Statement: Audit Committees in Local Authorities and Police 2022 and consider whether any further training would be beneficial for the Audit Panel.</li></ol>
<b>Corporate Plan:</b>	The functions of the Audit Panel support the operations of the Council, which deliver the objectives of the Corporate Plan.
<b>Policy Implications:</b>	An effective Audit Committee supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance.
<b>Financial Implications: (Authorised by the statutory Section 151 Officer &amp; Chief Finance Officer)</b>	An effective Audit Committee supports corporate governance, internal control, risk management and arrangements to ensure value for money.
<b>Legal Implications: (Authorised by the Borough Solicitor)</b>	Failure to organise in this way would put the Council at greater risks of successful regulatory, judicial and ombudsman challenge.
<b>Risk Management:</b>	The Audit Committee supports effective risk management and internal control arrangements across the Council.
<b>Access to Information:</b>	This report is to be considered in public.
<b>Background Papers:</b>	The background papers relating to this report can be inspected by contacting Christine Weston.  Telephone: 0161 342 2356  e-mail: <a href="mailto:christine.weston@tameside.gov.uk">christine.weston@tameside.gov.uk</a>

## 1. BACKGROUND

- 1.1 The Audit Panel is the Committee of Tameside Council that undertakes the role of the Audit Committee. The terms of reference for the Audit Panel are listed in **Appendix 1**.
- 1.2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 1.3 The Audit Panel is a key component of the Council's governance framework. Its function is to provide an independent and high-level resource to support good governance and strong public financial management.

## 2. ROLE OF THE AUDIT COMMITTEE

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has recently released an updated Position Statement on the role of the Audit Committee in Local Authorities which replaces the 2018 statement.
- 2.2 The Position Statement identifies the purpose of the Audit Committee as:  
*"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"*.
- 2.3 It states that it 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.
- 2.4 It 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.

2.5 The role of the Audit Committee referred to by CIPFA is delivered by the Audit Panel at Tameside.

### **3. FORWARD PLAN**

3.1 To assist the Audit Panel with delivering its terms of reference, officers have prepared the updated work plan for 2023/24, which sets out the areas that should be considered by the Audit Panel. The work plan outlined in **Appendix 2** has been updated. The dates for 2023 are provisional and may need to be amended.

3.2 Members of the panel are asked to consider whether any additional items or training are required, with reference to the core functions listed above and the CIPFA guidance for Audit Committees which is a separate item on the Agenda.

### **4. RECOMMENDATIONS**

4.1 As set out on the front of the report.

## **Audit Panel Terms of Reference (Approved by Full Council May 2019)**

## **APPENDIX 1**

### **Role**

To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

To undertake the functions of an Audit Committee in accordance with the CIPFA Statement on Audit Committees in Local Authorities.

The Panel shall comprise a membership of 8 Members and is subject to the rules of political balance. The Panel shall be chaired by the Chair of the Overview Panel.

### **Terms of Reference**

1. To overview the arrangements for internal control (both financial and non financial).
2. Consider the Annual Audit Letter from our External Auditors.
3. Approve (but not direct) both external and internal audit's strategy, annual plans and monitor performance.
4. Review summary internal audit reports and the main issues arising and seek assurance that management action has been taken where necessary.
5. Receive the annual report and Head of Internal Audit opinion on the Council's corporate governance, risk management and internal control arrangements.
6. Consider the reports of other regulators and inspectors.
7. Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anticorruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
8. Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
9. To review existing and proposed arrangements, recommend changes and receive assurance that the systems of corporate governance are operating effectively and in accordance with best practice.
10. Review and approval of the annual Statement of Accounts, including the Annual Governance Statement and related matters. Approval of accounting policies and consideration of whether there are any concerns arising from the financial statements or external audit that need to be brought to the attention of the Council.
11. Receive and consider the external auditor's report and opinion on the financial statements.
12. Monitor action taken in response to any matters raised in the external auditor's report.
13. Monitor action taken in response to any matters raised in the Annual Governance Statement.

**PROPOSED WORK PLAN AND TRAINING FOR AUDIT PANEL  
APPENDIX 2**

March 2023	July 2023	Sept 2023	November 2023
<b>Financial Reporting and Accounts</b>			
	Accounting Policies and Critical Judgements	Draft Statement of Accounts 2022/23	
Treasury Strategy		Treasury Outturn Report	
<b>Internal Audit</b>			
Risk Management and Audit Progress Report Q3 2022/23	Risk Management and Audit Progress Report Q1		Risk Management and Audit Progress Report Q2
Risk Management and Audit Services Planned Work 2023/24	Internal Audit Annual Report and Head of Internal Audit Opinion 2022/23		
CIPFA guidance for Audit Committees	Review of Internal Audit 2022/23		
NFI Annual Report 2022			
<b>External Audit</b>			
Progress Report	External Audit 2020/21 and 2021/22 Accounts sign off		
2021/22 Audit Plan Greater Manchester Pension Fund			External Audit Completion Report 2022/23
	Audit Strategy Memorandums		
<b>Risk Management</b>			
Corporate Risk Register Review	Corporate Risk Register Review	Corporate Risk Register Review	Corporate Risk Register Review
<b>Internal Control and Governance Environment</b>			
Procurement Update		Procurement Update	
	Review against the Code of Corporate Governance		
	Annual Governance Statement Improvement Plan Update and Draft		

March 2023	July 2023	Sept 2023	November 2023
	Annual Governance Statement 2022/23		
<b>Work Plan</b>			
Forward Plan	Forward Plan	Forward Plan	Forward Plan
<b>Training</b>			
	Training – Accounts	Training – To be Determined	Training – To be Determined
<b>Other</b>			
Private Meeting with Internal and External Audit (If Required)	Private Meeting with Internal and External Audit (If Required)	Private Meeting with Internal and External Audit (If Required)	Private Meeting with Internal and External Audit (If Required)



<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Reporting Officer:</b>	Christine Weston–Interim Head of Risk Management and Audit Services
<b>Subject:</b>	<b>PROGRESS REPORT ON RISK MANAGEMENT AND AUDIT ACTIVITIES OCTOBER 2022 TO DECEMBER 2022</b>
<b>Report Summary:</b>	To advise members of the work undertaken by the Risk Management and Audit Service from October 2022 to December 2022.
<b>Recommendations:</b>	That members note the report and the performance of the Service Unit from October 2022 to December 2022.
<b>Links to Corporate Plan:</b>	Internal Audit supports the individual operations, which deliver the objectives within the Corporate Plan.
<b>Policy Implications:</b>	Effective Risk Management and Internal Audit supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance.
<b>Financial Implications:</b> <b>(Authorised by the Borough Treasurer)</b>	Effective Risk Management and Internal Audit assists in safeguarding assets, ensuring the best use of resources and reducing losses due to poor risk management. It also helps to keep insurance premiums and compensation payments to a minimum and provides assurance that a sound control environment is in place.
<b>Legal Implications:</b> <b>(Authorised by the Borough Solicitor)</b>	<p>This report is provided to Members to demonstrate compliance with the Accounts and Audit Regulations 2015 (as amended) which in turn demonstrates proper administration of the Council's affairs.</p> <p>Internal Audit when engaging and supporting individual operations need to evidence prudent management of affairs to secure economic, efficient and effective use of Council resources.</p> <p>Such prudent management is all the more critical during periods when the council is operating in a challenging financial climate and to ensure that where necessary lessons are learned and management improved.</p>
<b>Risk Management:</b>	Assists in providing the necessary levels of assurance that the significant risks relating to the Council's operations are being effectively managed.
<b>Access to Information:</b>	<p>The background papers can be obtained from the author of the report, Christine Weston, Interim Head of Risk Management and Audit Services by contacting:</p> <p> Telephone: 0161 342 2356</p> <p> e-mail: <a href="mailto:christine.weston@tameside.gov.uk">christine.weston@tameside.gov.uk</a></p>

## 1. INTRODUCTION

- 1.1 This progress report covers the period October 2022 to December 2022.
- 1.2 The main objective of this report is to summarise the work undertaken by the Risk Management and Audit Service during the period from October 2022 to December 2022 in respect of the revised Plan for 2022/23.

## 2. INTERNAL AUDIT PROGRESS AGAINST THE PLAN 2022/23

- 2.1 The Audit Plan approved on 15 March 2022 covered the period April 2022 to March 2023 and totalled 1,207 Days. A revised plan was approved at the Audit Panel in November 2022, with a reduced number of days totalling 855 days.
- 2.2 **Table 1** below provides a summary of the Audit Plan 2022/23 and details the Approved Plan Days, the Revised Plan and the Actual Days delivered to December 2022. **Appendix 1** provides a detailed breakdown for each service area and also the status of the audits and the Level of Assurance given for each audit report issued.
- 2.3 **Table 1 – Annual Audit Plan Summary 2022/23**

Service Area / Directorate	Approved Plan 2022/23	Revised Plan 2022/23	Actual Days to December 2022	Variance
Adults	82	67	33	34
Children's	121	79	14	65
Children's Learning and Schools	143	114	93	21
Crosscutting	61	31	34	-3
Digital Tameside	71	75	47	28
Exchequer Services	79	57	28	29
Finance	78	73	47	26
People and Workforce Development	68	55	40	15
Policy and Performance	28	3	2	1
Greater Manchester Pension Fund	300	205	126	79
Place	154	64	42	22
Population Health	22	32	32	0
<b>Total Planned Days 2022/23</b>	<b>1,207</b>	<b>855</b>	<b>538</b>	<b>317</b>

- 2.4 We have several new staff who have started in January 2023, and also an agency member of staff, so the revised plan should be achievable to the year end. We are only holding one Senior Auditor vacancy at the moment.
- 2.5 **Appendix 1** shows the progress made against the revised plan up to the end of December 2022.
- 2.6 The Risk Management and Audit Team are still working to a hybrid model, with staff coming into the office at least one day a week, or more often, as required to deliver the service.

### **3 AUDIT ACTIVITY FROM OCTOBER 2022 TO DECEMBER 2022**

- 3.1 In the period October to December 2022, 9 Final Reports were issued, the results of which are summarised in Table 2 below. One of the reports was a control report, and one was a consultancy report, so they were not given a level of assurance, hence 7 reports are shown in the table below.

**Table 2 – Final Reports October to December 2022**

<b>Levels of Assurance</b>	<b>Number of reports issued October to December 2022</b>
High	1
Medium	4
Low	2
<b>Totals</b>	<b>7</b>

NB – the Low level of Assurance, related to the Council Tax Audit and Livingstone Primary School.

- 3.2 In addition to the Final Reports issued above, 5 Draft Reports have been issued for management review and responses and these will be reported to the Panel in due course.
- 3.3 Post Audit Reviews are undertaken approximately six months after the Final Report has been issued, however, where a Low level of assurance is issued the Post Audit Review is scheduled for three months to ensure that the issues identified are addressed. We have a number of Post Audit Reviews in progress, however none were finalised in the period October to December 2022. We will give a full update on the Post Audit Reviews completed in the next report to the Panel

### **4 IRREGULARITIES/COUNTER FRAUD WORK**

- 4.1 Fraud, irregularity and whistle-blowing investigations are conducted by two Corporate Fraud Investigators within the Internal Audit Team under the direction of a Principal Auditor and the Interim Head of Risk Management and Audit Services. One of the Corporate Fraud Investigators left the Council in July 2022 and we have recruited a new member of staff who has started in January 2023.
- 4.2 Liaison with Legal Services takes place as and when required on a case by case basis. Ongoing assistance cases can range from obtaining information for an investigating officer to actually undertaking some analysis work and providing evidence for the investigatory process. This work can range from analysing expenditure records, internet usage, identification of undeclared assets and assisting other organisations to progress their investigations.
- 4.4 There were no new investigation case in the period October to December 2022, but there were 4 new assistance cases.
- 4.5 We received the latest NFI matches back from the Cabinet Office at the end of January 2023. Details will be reported to the next meeting of the Audit Panel.

### **5 RISK, INSURANCE AND INFORMATION GOVERNANCE**

- 5.1 The Risk, Insurance and Information Governance Team provide services to the whole Council. The key priorities for the team during 2022/23 are detailed in Table 3 below together

with a progress update to the end of December 2022.

**Table 3 – Risk, Insurance and Information Governance Key Priorities**

Key Priorities 2022/23	Progress Report – December 2022
<p>To continue to work with the Single Leadership Team to review the Corporate Risk Register ensuring that it is linked to the Corporate Plan Themes and Priorities, to review the process for recording and evaluating risks and develop operational risk registers. A key priority will be to develop the monitoring of risk registers to ensure they are reported appropriately to officers and members.</p>	<p>The Corporate Risk Register is now updated and presented to the Single Leadership Team and the Audit Panel quarterly. Work with service areas to develop operational risk registers has been delayed to 2023/24 due to capacity issues.</p>
<p>To deliver the Information Governance Work Plan which is being developed with the Information Governance Group to ensure that the Council is compliant with all Data Protection legislation.</p>	<p>Delivery of the Work Plan is progressing well and a number of policies and procedures have been updated and approved. Progress during 2022/23 includes the release of an updated Information Governance Policy, an Information Governance Conduct Policy and a revised Redaction Guidance document.</p>
<p>To provide Data Protection/Information Governance advice and guidance to support services ensure new systems, processes and partnership working involving the collection, sharing, processing and storage of personal data are compliant with Data Protection legislation.</p>	<p>This forms the bulk of the daily work carried out by the team in relation to Information Governance. The volume of requests for advice and guidance is high. Work is prioritised in order to deal with urgent cases first.</p>
<p>To work with senior managers to ensure that Service Area/Units Business Continuity Plans are robust and fit for purpose and regularly reviewed to support management in responding to a major incident.</p>	<p>Following completion of the Work Smart Project, the team will provide guidance to Service Areas in 2023/24 to refresh plans to reflect the new working model.</p>
<p>To review the insurance database used to ensure it is fit for purpose and that the reporting functionality is efficient and effective.</p>	<p>This review has commenced, and a decision on the most suitable database product will be made during 2023/24.</p>
<p>To continue to support managers to assess their risks as services are redesigned to ensure that changes to systems and procedures remain robust and resilient offering cost effective mitigation and that claims for compensation can be successfully repudiated and defended should litigation occur.</p>	<p>The Team continue to provide advice and support to services areas as requested, in relation to Risk Management, Insurance and Business Continuity Planning:-</p>
<p>To review the information held and introduce regular reports for management in terms of claims received to inform and improve the risk management process.</p>	<p>The format of the report is being reviewed by the Risk, Insurance and Information Governance Manager and the proposed format will be discussed with the Assistant Director of Finance prior to it being presented to officers and members.</p>

## 6 RECOMMENDATION

6.1 As set out on the front of the report.

# Internal Audit Progress Report to 31 December 2022

## APPENDIX 1

Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
<b>Adult Services</b>							
07119/005.bf.bf	Contract Monitoring - Care Homes	1.00	4.53	4.50	0.03	Final Report Issued	Medium
07141/002.bf	Consultancy Review - Safeguarding - Adult Services	1.00	4.75	4.75	0.00	Final Report Issued	N/A
07134/002.bf	Budgetary Control & Financial Management - Adult Services	0.00	8.32	8.50	-0.18	Work in Progress	
07113/003	Out Of Hours	15.00	0.00	0.00	0.00		
07166/001	Transfer of Clients from Children's Services	10.00	12.57	2.60	9.97	Work in Progress	
07106/017	Learning Disabilities Client Accounts	15.00	0.00	0.00	0.00		
07165/001	System Sign Off - Greater Manchester Care Records	6.00	6.28	0.28	6.00	Work in Progress	
03123/010	Direct Payments	10.00	10.00	0.00	10.00	Q4	
07141/003	Control Report - Safeguarding - Adult Services - TASP	0.00	8.45	7.29	1.16	Final Report Issued	N/A
07142/015	Planning & Control - Adult Services	5.00	5.20	2.92	2.28	Ongoing	
07143/015	Advice - Adult Services	5.00	4.90	0.90	4.00	Ongoing	
07145/016	Post Audit Reviews - Adult Services	12.50	0.00	0.00	0.00	Ongoing	
07106/018	Post Audit Review - Learning Disabilities Client Accounts - 27 Neal Avenue, Ashton-under-Lyne	1.50	1.85	0.93	0.92	Work in Progress	
		<b>82.00</b>	<b>66.85</b>	<b>32.67</b>	<b>34.18</b>		
<b>Childrens Services</b>							
11546/001	Direct Payments	10.00	10.00	0.00	10.00	Q4	
07301/003	Safeguarding	15.00	0.07	0.07	0.00		
11208/001	Deprivation Of Liberty Orders (DOLS)	15.00	0.00	0.00	0.00		
11207/001	Missing Children	15.00	15.00	0.00	15.00	Rescheduled	
11541/003	Conference and Review Process	15.00	0.00	0.00	0.00		
11129/002	Transition of Clients From Childrens to Adults Services	10.00	10.76	1.80	8.96	Q4	
11521/024	Supporting Families	15.00	15.00	0.28	14.72	Q4	
11112/004.bf	Fostering	0.50	1.16	1.10	0.06	Final Report Issued	Medium
11505/013	Planning & Control - Childrens	10.00	9.34	3.90	5.44	Ongoing	
11506/018	Advice - Childrens	6.00	5.98	1.12	4.86	Ongoing	

# Internal Audit Progress Report to 31 December 2022

## APPENDIX 1

Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
11506/019	Advice - Childrens - Special Guardianship Orders	0.00	1.00	0.89	0.11	Work in progress	
	Whistleblowing Dec 2022	0.00	0.00	0.40	-0.40	Completed	
11125/010	Post Audit Reviews - Childrens	9.00	0.00	0.00	0.00		
11111/015	Post Audit Review - Children's Homes - Review of Expenditure	0.00	5.80	0.97	4.83	Work in Progress	
11521/025	PAR - Supporting Families	1.00	2.12	2.12	0.00	Completed	
11112/005	PAR - Fostering	0.00	1.50	0.00	1.50	Q4	
11107/004	PAR - Agency Workers control report	0.00	0.00	0.76	-0.76	Work in Progress	
11118/010	PAR - Procurement of Placements for Children	0.00	1.54	0.78	0.76	Work in Progress	
		<b>121.50</b>	<b>79.28</b>	<b>14.19</b>	<b>65.09</b>		
<b>Learning and Schools</b>							
11353/014	Micklehurst Primary	0.00	8.00	12.67	-4.67	Work in Progress	
11310/013.bf	Arlies Primary & Nursery	0.50	0.41	0.40	0.01	Final Report Issued	High
11323/009.bf	Russell Scott Primary	0.50	1.19	1.20	-0.01	Final Report Issued	Medium
11331/005.bf	Corrie Primary & Nursery	0.50	1.17	1.17	0.00	Final Report Issued	Medium
11369/003.bf	St Josephs R C Primary & Nursery	0.50	0.93	0.93	0.00	Final Report Issued	Medium
11393/003.bf	Thomas Ashton Primary & Secondary Centres	3.00	6.55	6.30	0.25	Final Report Issued	Medium
11381/012	Mossley Hollins High - Grant Assurance work	0.00	2.84	2.84	0.00	Completed	N/A
	The Heys	0.00	6.00	0.00	6.00		
11308/003	Gorse Hall Primary & Nursery	6.00	0.00	0.00	0.00	Q4	
11327/009	Livingstone Primary	6.00	20.26	19.23	1.03	Final Report Issued	Low
11329/005	Aldwyn Primary	6.00	6.00	10.68	-4.68	Work in Progress	
11333/003	Holden Clough Primary & Nursery	6.00	6.00	0.00	6.00		
11345/003	Holy Trinity C E Gee Cross	6.00	6.00	0.00	6.00	Q4	
11356/013	St Pauls R C Primary & Nursery Hyde	6.00	0.00	0.00	0.00		
11358/003	St Marys R C Primary Denton	6.00	6.00	2.21	3.79	Q4	
11359/010	St Peters RC Primary & Nursery Stalybridge	6.00	12.00	12.41	-0.41	Draft Report Issued	

# Internal Audit Progress Report to 31 December 2022

## APPENDIX 1

Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
11367/003	St Marys R C Primary & Nursery, Dukinfield	6.00	0.00	0.00	0.00		
11372/008	St Annes R C Primary & Nursery, Audenshaw	6.00	0.00	0.00	0.00		
11386/009	St Damians R C Science College	10.00	0.00	0.00	0.00		
11387/003	St Thomas More R C Maths & Computing College	10.00	0.00	0.00	0.00		
	Hurst Knoll Query	0.00	2.00	3.61	-1.61	Completed	
11455/008	Planning and Control - Schools and Learning	15.00	8.17	4.59	3.58	Ongoing	
11457/012	Advice - Schools and Learning	10.00	8.00	5.33	2.67	Ongoing	
11456/007	Post Audit Review - Schools and Learning	13.00	0.00	0.00	0.00		
11315/006	Post Audit Review - Millbrook Prim & Nursery	1.50	1.77	1.77	0.00	Completed	
11360/010	Post Audit Review - St Raphaels R C Primary	1.50	1.85	1.85	0.00	Completed	
11352/009	PAR - Milton St Johns C E Primary	0.50	1.88	1.88	0.00	Completed	
11362/005	Post Audit Review - Holy Trinity C E Primary	1.50	2.29	2.43	-0.14	Work in progress	
11357/008.bf	PAR - St James R C Primary & Nursery Hattersley Hyde	0.00	0.63	0.63	0.00	Completed	
11366/013.bf	PAR - Canon Burrows C E Primary	0.00	0.64	0.14	0.50	Work in progress	
	PAR - Russell Scott	0.00	1.50	0.27	1.23	Q4	
	PAR - St Josephs	0.00	1.00	0.23	0.77	Q4	
	PAR - Arlies	0.00	1.00	0.12	0.88	Q4	
11501/003	Special Educational Needs and Disability (SEND)	15.00	0.00	0.00	0.00		
		<b>143.00</b>	<b>114.06</b>	<b>92.88</b>	<b>21.18</b>		
<b>Crosscutting</b>							
01171/001	STAR - Contract Monitoring	15.00	0.00	0.00	0.00		
01165/007	Greater Manchester Combined Authority - Grant Assurance Work	10.00	8.40	8.40	0.00		
09101/003	Recruitment & Selection	15.00	0.00	0.00	0.00		
01244/009	Procurement - STAR	15.00	0.00	0.00	0.00		
01137/008	Post Audit Reviews - Cross Cutting	3.00	0.00	0.00	0.00		
04228/001.bf	Domestic Abuse - Contract Monitoring	3.00	18.68	19.40	-0.72	Final Report issued	Medium

# Internal Audit Progress Report to 31 December 2022

## APPENDIX 1

Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
01165/009	Pot Hole grant Control Report	0.00	0.00	1.33	-1.33	Draft Report Issued	
01165/008	Greater Manchester Combined Authority - Grant Assurance Work - Local Transport Capital Block Funding (Pothole Fund)	0.00	4.00	4.69	-0.69	Completed	
		<b>61.00</b>	<b>31.08</b>	<b>33.82</b>	<b>-2.74</b>		
<b>Digital Tameside</b>							
13117/002.bf	Access Control Management	0.50	1.46	1.00	0.46	Draft Report Issued	
06319/001.bf	Physical and Environmental Controls	0.00	0.00	8.00	-8.00	Work in Progress - Salford	
13119/001.bf.bf	Cooperative Network Infrastructure (CNI)	0.00	7.01	9.50	-2.49	Draft Report Issued	
13118/003	Vulnerability Management	5.00	5.00	5.00	0.00	Work in Progress - Salford	
01105/004	ICT Business Continuity and Disaster Recovery	11.00	11.00	0.00	11.00	Q4 - Salford	
06505/001	Payment Security PCI DSS	8.00	8.00	0.00	8.00	Recheduled to 2023/24	
06205/001	Request/Incident Management	10.00	10.00	0.40	9.60	Work in Progress - Salford	
13507/001	Software Licence Management	10.00	10.00	8.00	2.00	Work in Progress	
13504/002	New BACS system sign off	6.00	9.44	8.44	1.00	Completed	
13106/007	Network Management	3.00	7.00	2.35	4.65	Final Report Issued	Medium
06501/014	Planning and Control - Digital Tameside	7.00	4.81	3.29	1.52	Ongoing	
06502/014	Advice and Support - Digital Tameside	1.00	1.32	1.60	-0.28		
06503/014	Post Audit Reviews - Digital Tameside	10.00	0.00	0.00	0.00		
		<b>71.50</b>	<b>75.03</b>	<b>47.58</b>	<b>27.46</b>		
<b>Exchequer Services</b>							
07263/003	Post Payment Assurance - Business Grants	5.00	1.58	0.58	1.00	Work in Progress	
07267/002	Advice - Support for Energy Bills	0.00	3.96	4.24	-0.28	Completed	
07212/011	Debt Recovery	15.00	15.14	0.14	15.00	Q4	
07216/003	Housing Benefits	20.00	0.00	0.00	0.00		
07206/011	NNDR Full System	15.00	15.00	7.99	7.01	Work in Progress	
07204/004.bf	Council Tax Full System	1.00	3.10	4.59	-1.49	Final Report Issued	Low
07257/002.bf	Capita System Review	0.50	0.40	0.40	0.00	Final Report Issued	Medium
07268/001	Test and Trace Support Payments - Assurance	0.00	4.37	4.37	0.00	Completed	
07235/015	Planning & Control - Exchequer & Support Services	5.00	4.85	2.53	2.32	Ongoing	



# Internal Audit Progress Report to 31 December 2022

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Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
07236/016	Advice - Exchequer & Support Services	10.00	7.19	3.50	3.69	Ongoing	
07240/016	Post Audit Reviews - Exchequer & Support Services	7.00	0.00	0.00	0.00		
	2ND PAR - Determination and Recovery of Adult Service Care and Support Charges	0.00	0	0.00	0.00	Q3	
	PAR Capita	0.00	1.50	0.00	1.50	Q3	
		<b>78.50</b>	<b>57.09</b>	<b>28.34</b>	<b>28.75</b>		
<b>Finance</b>							
07132/010	2nd PAR - Determination and Recovery of Adult Service Care and Support Charges	0.00	3.00	0.00	3.00	Q4	
07132/009.bf.bf	PAR - Determination and Recovery of Adult Service Care and Support Charges	0.00	2.26	2.26	0.00	Completed	
03113/004	Treasury Management Workflow Sign Off	0.00	3.64	3.64	0.00	Completed	
03302/018.bf	Control Report - Adult Social Care Infection Control and Testing Grant	1.00	4.54	4.41	0.13	Final Report Issued	N/A
03136/008	Information Governance	15.00	0.00	0.00	0.00		
03108/003	Bank Reconciliation Procedures	10.00	26.10	22.38	3.72	Draft Report Issued	
03109/005	VAT	15.00	15.15	0.70	14.45	Q4	
03112/006	Monitoring of Capital Programme	15.00	0.00	0.00	0.00		
04547/004	George Byron Trust Audit of Accounts	1.00	1.00	0.00	1.00	Q4	
	BACS post implementation	0.00	1.00	0.00	1.00	Q4	
	Cash Procedures	0.00	0.50	0.00	0.50	Q4	
03301/006	Planning & Control - Finance	5.00	5.00	4.37	0.63	Ongoing	
03302/019	Advice and Support - Finance	10.00	9.63	8.30	1.33	Ongoing	
03303/016	Post Audit Reviews - Finance	4.50	0.00	0.00	0.00		
03113/005	Post Audit Review - Treasury Management	1.50	1.50	0.61	0.89	Work in progress	
		<b>78.00</b>	<b>73.31</b>	<b>46.67</b>	<b>26.64</b>		
<b>People and Workforce Development</b>							
09550/001	Review of Payroll Payments	15.00	24.77	18.70	6.07	Work in progress	
09517/004	i TRENT Self Service	10.00	0.00	0.00	0.00		
10312/003	Agresso Upgrade	10.00	4.60	4.95	-0.35	Completed	

# Internal Audit Progress Report to 31 December 2022

## APPENDIX 1

Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
02201/006	Registrars (Births, Deaths & Marriages)	5.00	0.00	0.00	0.00		
02303/008	Members Allowances - Publication	2.00	1.61	1.61	0.00		
10320/002	ATS - Applicant Tracking System - Greater Jobs	2.00	0.28	0.72	-0.44	Work in Progress	
09511/002	Teachers Pension Monthly Contributions Reconciliation	1.00	1.00	0.00	1.00	Q4	
12208/006	Duplicate Payment Exercise	3.00	5.50	2.94	2.56	Ongoing	
09111/012	Car Allowances Annual Review	2.00	2.00	2.21	-0.21	Completed	
02401/017	Planning and Control - People and Workforce Development	5.00	3.16	1.32	1.84	Ongoing	
02402/026	Advice and Support - People and Workforce Development	10.00	9.41	5.57	3.84	Ongoing	
0403/016	Post Audit Reviews - People and Workforce Development	2.00	0.00	0.00	0.00		
	PAR - Procure to Pay	0.50	1.11	1.11	0.00	Completed	
	PAR - Registrars	0.00	1.00	0.84	0.16	Q3	
		<b>67.50</b>	<b>54.43</b>	<b>39.97</b>	<b>14.46</b>		
<b>Policy and Performance</b>							
10326/003	Support to the Transformation Team	20.00	0.00	0.00	0.00	Suspended	
02703/003	Planning and Control - Policy and Performance	5.00	2.67	1.91	0.76	Ongoing	
02704/002	Advice and Support - Policy and Performance	3.00	0.47	0.47	0.00		
		<b>28.00</b>	<b>3.14</b>	<b>2.38</b>	<b>0.76</b>		
<b>Greater Manchester Pension Fund</b>							
08660/002	Contact Centre	10.00	10.00	5.70	4.30	Work in progress - Salford	
08113/009.bf	Debtors	3.00	11.39	12.87	-1.48	Final Report issued	Medium
08663/002.bf	Treasury Management workflow Sign Off	0.00	0.75	0.80	-0.05	Work in Progress	
08609/061	Advice and Support - Pension Payroll - Early Payment - BACS issue	0.00	1.43	1.54	-0.11	Completed	
08607/004	Irregularity Investigations - NFI	5.00	5.00	0.38	4.62	Ongoing	
08202/006	Capital Call Execution Service - Custodian-Local Investments-Agresso	15.00	0.00	0.00	0.00		
08214/001	Fund Manager - UBS	15.00	0.00	0.00	0.00		

# Internal Audit Progress Report to 31 December 2022

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Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
08226/004	Northern LGPS	15.00	15.00	2.22	12.78	Work in Progress	
085604/001.bf	Fund Manager - Sci Beta	3.00	5.01	5.01	0.00	Final Report Issued	High
08211/003.bf	Northern Private Equity Partnership - NPEP	1.00	6.19	6.82	-0.63	Final Report Issued	High
08413/001	Conveyancing Function	15.00	0.00	0.00	0.00		
08506/008	Pension Benefits Payable	15.00	18.00	8.72	9.28	Work in progress	
08507/001	Deferred Pensions	15.00	0.00	0.00	0.00		
08666/001	Pensions Dashboard	10.00	0.00	0.00	0.00		
08665/001	Mc Cloud	15.00	0.00	0.00	0.00		
08538/014	Visits to Contributing Bodies	50.00	12.00	0.00	12.00	Ongoing	
2,877	Visit to Contributing Body - MMU	0.00	10.00	9.34	0.66	Work in progress	
08667/001	IT Service Desk	10.00	0.00	0.00	0.00		
08556/001	Sharepoint/One Drive	6.00	6.00	2.24	3.76	Work in progress - Salford	
08553/001	IT Supplier Management	10.00	10.00	1.00	9.00	Work in progress - Salford	
	MS365		0.00	0.00	0.00		
08654/001	Pensions Regulator - Single Code of Practice	10.00	0.00	0.00	0.00		
08570/001.bf	Control Report - Fraudulent Pension Payment	0.50	1.33	1.33	0.00	Final Report Issued	N/A
08594/005.bf	i Connect - Monthly Data Collection (Post Implementation Review)	1.00	1.83	1.83	0.00	Final Report Issued	Medium
08509/001.bf	AVC's	0.50	5.08	5.41	-0.33	Draft Report Issued	
08542/006.bf	Visits to Contributing Bodies - The Chief Constable of Greater Manchester	0.00	4.24	4.42	-0.18	Final Report Issued	Low
08597/003.bf	Visits to Contributing Bodies - LTE Group (incl Manchester College)	0.00	1.60	1.60	0.00	Final Report Issued	Medium
08529/004.bf	Visit To Contributing Body - Trafford Council	0.00	1.30	1.33	-0.03	Final Report Issued	Medium
08542/007	Chief Constable of Greater Manchester - Audit March 2022 iConnect File	0.00	3.16	3.16	0.00	Completed	
08671/001	Valuation Checks	0.00	1.17	1.20	-0.03	Completed	
08521/007	Employer Audit - Bolton Council	0.00	11.42	12.39	-0.97	Draft Report Issued	
08619/005	Altair - Administration to Payroll Upgrade	10.00	0.28	0.28	0.00	Work in Progress	
	VAT		10.00	0.00	10.00	Q4	
08314/007	Property Management Contracts	15.00	5.06	5.06	0.00	Rescheduled to 2023/24	

# Internal Audit Progress Report to 31 December 2022

## APPENDIX 1

Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
08608/016	Planning and Control - Pensions Global-All Service Units	15.00	15.12	12.96	2.16	Ongoing	
08609/060	Advice and Support - Pensions Global-All Service Units	20.00	17.81	6.92	10.89	Ongoing	
08610/016	Post Audit Reviews - Pensions Global-All Service Units	12.00	0.00	0.00	0.00		
08316/002	PAR - Local Investments	1.50	2.37	2.37	0.00	Completed	
08649/002	PAR - My Pension	0.00	0.50	0.49	0.01	Work in progress	
08537/002	PAR - Cyber Security	0.00	1.00	1.23	-0.23	Work in progress	
08114/004.bf	2nd PAR -Creditors	0.00	1.77	1.77	0.00	Completed	
08663/003	PAR - Treasury Management	1.50	1.50	0.90	0.60	Work in progress	
08602/005.bf	PAR - New Custodian (Northern Trust)	0.00	0.00	0.00	0.00	Completed	
08506/007.bf	PAR - Pension Benefits Payable	0.00	0.30	0.30	0.00	Completed	
08640/003.bf	PAR - Visit to Contributing Body - University of Bolton	0.00	1.32	1.32	0.00	Completed	
08524/012	PAR - Employer Audit - Oldham Metropolitan Borough Council	0.00	2.00	2.00	0.00	Completed	
08104/002.bf	PAR - Ill Health & Early Retirement	0.00	0.83	0.83	0.00	Completed	
1,068	PAR - Visit to Police Constable GM	0.00	1.50	0.49	1.01	Work in progress	
08529/005	PAR - Visit to Trafford Council	0.00	1.50	0.00	1.50	Work in progress	
		<b>300.00</b>	<b>204.77</b>	<b>126.23</b>	<b>78.53</b>		
<b>Place</b>							
04513/004	Estate Management	15.00	0.00	0.00	0.00		
01243/007	Monitoring of the Facilities Management Contract	15.00	0.00	0.00	0.00		
04313/001	Development Projects	15.00	2.14	0.35	1.79	Work in progress	
04339/001	Godley Green Capital Project	15.00	5.56	0.56	5.00	Work in progress	
04323/003	Building Control	15.00	0.00	0.00	0.00		
04338/003	Post Payment Assurance - Business Grants	5.00	1.00	0.00	1.00	Q4	
04222/018	Hattersley Collaboration Agreement	6.00	0.00	0.00	0.00		
01237/004.bf.bf	Capital Project - Control Report - Hyde Community College	0.00	0.71	0.21	0.50	Draft Report Issued	
04550/002	System Sign off - Transys	6.00	0.37	0.37	0.00		

# Internal Audit Progress Report to 31 December 2022

## APPENDIX 1

Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
04539/016	Local Authority Bus Subsidy Grant	2.00	1.90	1.90	0.00	Completed	
09401/003	Health & Safety	15.00	0.00	0.00	0.00		
04153/002	Welfare Rights - System Sign Off	6.00	0.00	0.00	0.00		
04201/006.bf	Homelessness & Advice	6.00	2.06	2.53	-0.47		
04229/001	Homelessness Prevention Fund Grant	0.00	11.11	12.14	-1.03	Completed	
04229/002	Control Report - Homelessness Prevention Fund Grant	0.00	0.00	0.89	-0.89	Draft Report Issued	
07401/001	System Sign Off - Museums Payment System	0.00	8.10	2.24	5.86	Work in Progress	
04230/001	Protect and Vaccinate Grant	0.00	2.90	2.90	0.00	Completed	
04150/001	Pot hole Grant		2.50	0.00	2.50	Work in progress	
	Pot hole Grant Control Report		1.25	0.00	1.25	Work in progress	
04133/015	Planning & Control - Place	10.00	9.97	4.70	5.27	Ongoing	
04317/005	Advice & Support - Place	10.00	4.28	3.32	0.96	Ongoing	
04110/002	Advice - Household Support Fund Round 2	0.00	0.80	0.80	0.00	Work in Progress	
04340/001	Advice - Homes for Ukraine Scheme Payments	0.00	7.65	7.65	0.00	Completed	
04135/013	Post Audit Reviews - Place	11.50	0.00	0.00	0.00		
04201/009	Post Audit Review - ABEN	1.50	1.76	0.87	0.89	Work in Progress	
		<b>154.00</b>	<b>64.06</b>	<b>41.42</b>	<b>22.63</b>		
<b>Population Health</b>							
07444/001	Health Protection	15.00	0.00	0.00	0.00		
07436/011	Prevention and Promotion of Mental Health Grant	0.00	3.90	3.90	0.00	Completed	
07448/001	Contain Outbreak Management Fund - Grant Assurance	0.00	9.31	9.31	0.00	Completed	
07449/001	Weight Management Grants - Adult	0.00	1.96	1.96	0.00	Completed	
07448/002	Contain Outbreak Management Fund - Grant Assurance - Control Report	0.00	3.29	3.23	0.06	Final Report issued	N/A
07450/001	Substance Misuse - Treatment and Recovery Grant Assurance	0.00	5.83	5.93	-0.10	Completed	
07449/002	Weight Management Grant - Children's	0.00	1.55	1.55	0.00	Completed	
07435/010	Planning & Control - Population Health	3.00	2.11	1.43	0.68	Ongoing	
07436/010	Advice - Population Health	1.00	0.59	0.70	-0.11	Ongoing	

# Internal Audit Progress Report to 31 December 2022

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Audit Ref	Audit Description	Approved Plan	Revised Plan	Actual Days to December	Variance	Status	Level of Assurance
07447/009	Post Audit Reviews - Population Health	3.00	0.28	0.42	-0.14	Ongoing	
07154/004	PAR - Health Visiting Service	0.00	3.51	3.59	-0.08	Completed	
		<b>22.00</b>	<b>32.34</b>	<b>32.01</b>	<b>0.32</b>		

1207.00	855.42	538.16	317.26
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<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Reporting Officer:</b>	Christine Weston – Interim Head of Risk Management and Audit Services
<b>Subject:</b>	<b>RISK MANAGEMENT AND AUDIT SERVICE PLANNED WORK 2023/24</b>
<b>Report Summary:</b>	The report presents the planned work for the Risk Management and Audit Service for 2023/24.
<b>Recommendations:</b>	<ol style="list-style-type: none"><li>1. Members approve the Draft Internal Audit Plan for 2023/24 shown at <b>Appendix 1</b></li><li>2. Members approve the Audit Strategy for 2023/24 shown at <b>Appendix 2.</b></li><li>3. Members approve the Audit Charter for 2023/24 shown at <b>Appendix 3.</b></li><li>4. Members approve the Quality Assurance and Improvement Programme for 2023/24 shown at <b>Appendix 4.</b></li></ol>
<b>Corporate Plan:</b>	Internal Audit supports the individual operations, which deliver the objectives within the Community Strategy.
<b>Policy Implications:</b>	Effective Risk Management and Audit supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance.
<b>Financial Implications: (Authorised by the statutory Section 151 Officer and Chief Finance Officer)</b>	Effective Risk Management and Audit assists in safeguarding assets, ensuring the best use of resources and reducing losses due to poor risk management. It also helps to keep insurance premiums to a minimum and provides assurance that a sound control environment is in place.
<b>Legal Implications: (Authorised by the Borough Solicitor)</b>	The 2015 Accounts and Audit Regulations set out requirements in relation to internal control, the exercise of public rights in relation to the accounts and rules for the preparation, approval and publication of the Council's statement of accounts. This report sets out the planned programme of works to ensure that Members are appropriately sighted and engaged with the work being undertaken by the audit and risk team. Section 13 of this report also details the proposals for an external review which needs to be planned for.
<b>Risk Management:</b>	By assisting in the effective management of risks, Risk Management and Audit help to reduce costs and improve service delivery.
<b>Access to Information:</b>	The background papers can be obtained from the author of the report, Christine Weston, Interim Head of Risk Management and Audit Services by: Telephone: 0161 342 2356 e-mail: <a href="mailto:christine.weston@tameside.gov.uk">christine.weston@tameside.gov.uk</a>

## 1. INTRODUCTION

- 1.1 The report presents the proposed planned work for the Risk Management and Audit Service for 2023/24.

## 2. INTERNAL AUDIT PLANNING PROCESS

- 2.1 The Internal Audit Service plans its work with a view to achieving the following key objectives:
- Supporting the Council's vision and Corporate Plan;
  - Providing assurances to Members and Senior Managers as to the effectiveness of the Council's internal controls;
  - Targeting resources towards priority (high-risk) areas;
  - Satisfying legislative requirements; and
  - Responding to the needs of service managers.
- 2.2 The audit management system "Galileo" holds the entire list of all audits that could be undertaken "the Audit Universe" and this is used as part of the consultation process.
- 2.3 Audits are prioritised based on an assessment of risk and allocated a numerical risk score which equates to either High, Medium/High, Medium, Low/Medium or Low and the following factors are taken into account:-
- Susceptibility to Error/Fraud;
  - Control Environment;
  - Sensitivity and Reputation of the Council;
  - Complexity;
  - Volume and Value of Transactions;
  - Management Concerns;
  - Management Changes;
  - Specific Business Risks/Business Importance;
  - Quality, Integrity and Security of Information; and
  - Years since Previous Audit.
- 2.4 Consultation involves Executive Members, Directors, Assistant Directors, Heads of Service and in some cases Service Unit Managers. The meetings which were carried out in January/February 2023 help to inform the risk assessments undertaken on audit activities and provide members and officers with the opportunity to discuss areas of concern or provide further details of up and coming changes to structures, key personnel, systems, procedures and/or legislation. In addition to agreeing priority audits, the discussions also include a report on previous audit work undertaken and the level and quality of the service provided. Risks identified in the Corporate Risk Register and other sources of assurance across the Council are also taken into account during the planning process.
- 2.5 Allegations of fraud investigated during the year together with intelligence gained from external sources (e.g. Chartered Institute of Public Finance and Accountancy Fraud Centre, National Anti-Fraud Network and networking events) are used to identify potential risks and new fraud areas which are then taken into account either directly as an audit or used to inform the audit work scheduled in a particular area.
- 2.6 Taking all the above information into account, the draft plan is produced. The draft plan is then balanced to Internal Audit resources. This stage of the process has been conducted by the Interim Head of Risk Management and Audit Services supported by the Principal Auditor who manages the plans on a day-to-day basis and is based on professional judgement and the potential risk exposure posed to the Council. Audits that cannot be covered in the current plan year have been highlighted as priorities for next year's audit plan and held in contingency in case difficulties arise in carrying any of the audits included in the annual plan.



- 2.7 The Interim Director of Finance (Section 151 Officer) and the Assistant Director of Finance have been consulted to ensure that the levels of coverage will provide the necessary information and assurance to support the Section 151 Officer Role and the preparation of the Annual Governance Statement.
- 2.8 Whilst the work of Internal Audit, External Audit and Scrutiny are different, consultation takes place during the year to ensure our respective work programmes are complementary and that areas are not “over audited/inspected”.

### 3. INTERNAL AUDIT ANNUAL AUDIT PLAN 2023/24

- 3.1 The Annual Audit Plan is summarised in **Table 1** and totals 1,489 Days, 1,075 Days on Planned Work and 414 Days on Counter Fraud Work/Investigations.
- 3.2 The Approved Plan for 2022/23 totalled 1,595 Days, which included 1,207 Days on Planned Work and 388 Days on Counter Fraud Work/Investigations. The reduction in days this year is due to available staffing resources, and is explained further in paragraph 3.3 below.

**Table 1 – Annual Audit Plan Summary 2023/24**

Service Area / Directorate	Proposed Plan 2023/24	% Plan 2023/24
Cross Cutting	69	5
Children’s	75	5
Education/Learning	111	7
Adults	88	6
Population Health	28	2
Place	131	9
Governance (Exchequer and People and Workforce Development)	132	9
Finance and Digital Tameside	121	8
Greater Manchester Pension Fund	300	20
Days to Complete 2021/22 Plan	20	1
<b>Total Planned Days for 2022/23</b>	<b>1075</b>	<b>72</b>
Counter Fraud Work/Investigations	414	28
<b>Total Planned Days for 2022/23</b>	<b>1489</b>	<b>100</b>

- 3.3 The Annual Audit Plan of 1,489 Days detailed above has been balanced to resources available. However, productive days are estimated and any changes to the assumptions used will be reflected during the year and reported to the Audit Panel and the Greater Manchester Pension Fund Local Board. We currently have a Senior Auditor vacancy and an assumption has been made that we will have someone in post by August. Also one of the new Auditors has a Term Time only contract which reduces the number of productive days available.
- 3.4 When we have compared the resources available to the list of audits produced from Galileo, the plan is produced and comprises Mandatory and High Risk Audits as defined below:-
- Mandatory – Audits/Audit Processes that need to be included this year e.g. grant certification work.
  - High/Medium/Low – Each audit in the ‘Audit Universe’ is risk assessed within the Audit Management System ‘Galileo’ and allocated a numerical score. Those with the highest scores are included in the plan until all available resources have been

accounted for.

3.5 The detailed Annual Audit Plan for 2023/24 is included at **Appendix 1** and shows:-

- Links to the Corporate Plan;
- Links to the Corporate Risk Register;
- Auditable Area;
- Purpose of the Audit;
- Priority;
- Audit Category; and
- Planned Days for 2023/24.

3.6 Each audit activity in the 2023/24 Plan has been linked to one of the themes within the Corporate Plan as shown below:-

**Table 2 – Corporate Plan Themes**



3.7 Where appropriate each audit has been linked to a risk in the Corporate Risk Register to ensure that the plan is providing audit coverage in the areas deemed to be of significant risk to the Council. For the Greater Manchester Pension Fund audits have been linked to their specific service risk registers.

3.8 Each audit in the Annual Audit Plan has been allocated to an Audit Category, which are explained in Table 3 below. Table 4 below shows the Annual Audit Plan analysed by those Categories.

**Table 3 – Audit Categories**

Category	Description
Assurance	To provide assurance to management that the key risks are being managed and that processes in place are robust and fit for purpose.
Financial Control	A programme of financial system reviews considered high risk to provide assurance that the risks are being managed and the systems in place are robust and fit for purpose.
Advice	Ongoing advice provided at the request of management and stakeholders.
Follow Up	Work undertaken to ensure recommendations documented in Final Reports have been implemented.
School Visits	A programme of school visits identified as highest risk taking into account any key changes in personnel, systems and finances.
Investigation	Ad hoc investigations into suspected fraud, irregularities and information incidents.

Category	Description
Computer Audit	Commissioned audit reviews of a technical nature from Salford Computer Audit Services, combined with reviews to be delivered in-house.
Contract Audit	Reviews on specific procurement activities and contracts considered high risk.
Certification Work	Independent verification work required by grant funding bodies, legislation and Final Accounts certification.

3.9 **Table 4 – Annual Audit Plan 2022/23 Analysed by Category**

Category	Planned Days 2022/23
Assurance	234
School Visits	68
Grant Certification Work	17
Computer Audit	30
Contract Audit	90
Financial Control	115
Follow Up Work (Post Audit Reviews)	92
Investigations	414
Planning, control and Reporting	53
Advice and Support	56
Greater Manchester Pension Fund	300
2022/23 Plan Work c/f	20
<b>Total Planned Days 2022/23</b>	<b>1489</b>

- 3.10 The plan will be kept under constant review and regular meetings will be held with Executive Members and the Senior Management Team to ensure that it reflects the keys risks for the Council going forward as it continues to change both in shape and in size to meet the financial challenges placed upon it.
- 3.11 The Service Unit does not employ a specialist Computer Auditor for the provision of technical computer audit support and this is procured from Salford MBC Computer Audit Services using the AGMA Collaboration Computer Audit Agreement to help deliver the ICT Audit work.
- 3.12 The Internal Audit Team has complete organisational independence and is not responsible for any non-audit work. Staff are very aware of the need to remain independent and ensure that requests for advice and support do not compromise this position.
- 3.13 All members of the Internal Audit Team sign an annual declaration form, and this includes confirming that they have read and agreed to adhere to the Tameside Code of Conduct for Employees and the Public Sector Internal Audit Standards - Code of Ethics.

#### 4. ANNUAL GOVERNANCE STATEMENT

- 4.1 The Accounts and Audit Regulations 2015 require audited bodies to conduct a review, at least once a year, of the effectiveness of its systems of internal control. The findings of the review shall be considered by a committee of the relevant body, or by members of the relevant body meeting as a whole, and following consideration, shall approve a governance statement, prepared in accordance with proper practices in relation to internal control.
- 4.2 The work of Internal Audit is fundamental to the production of this statement as the work conducted provides evidence and ongoing assurance that the systems of internal control

have been reviewed and that risks are being effectively managed.

## **5. INTERNAL AUDIT STRATEGY AND CHARTER**

5.1 In order to comply with the Public Sector Internal Audit Standards it is necessary for the Audit Panel to approve the Internal Audit Strategy (attached at **Appendix 2**) and the Internal Audit Charter (attached at **Appendix 3**) annually.

5.2 The Strategy provides an overview of Internal Audit and covers:-

- Introduction;
- Main Drivers in setting the Direction;
- What this means we need to do; and
- How will we do this?

5.3 The Internal Audit Charter is more operational and includes:-

- Background;
- Missions and Definition of Internal Audit;
- Standards;
- Responsibility and Objectives of Internal Audit;
- Responsibility of the Council;
- Independence of Internal Audit;
- Head of Risk Management and Audit (Chief Audit Executive/Head of Audit)
- Relationships;
- Opinion and Non-Opinion Work;
- Fraud;
- Reporting;
- Internal Audit Access Rights; and
- Internal Audit Resources.

## **6 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

6.1 Standard 1300 of the Public Sector Internal Audit Standards require:  
“That the Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity”.

6.2 The Quality Assurance and Improvement Programme (attached at **Appendix 4**) includes:-

- Introduction;
- Internal Assessments;
- External Assessments;
- Service Development; and
- Review of the Quality Assurance and Improvement Programme.

## **7 PROACTIVE FRAUD WORK/IRREGULARITY INVESTIGATIONS**

7.1 Whilst unplanned in their nature, time is required each year for the investigation of frauds and irregularities that are notified to Internal Audit. There is a dedicated resource within the service unit, which provides support to management to ensure that such problems are dealt with as effectively as possible. A control report is provided in response to investigations/advice and support work to ensure that the control environment is improved to try to minimise any future re-occurrence. Learning points are noted for wider dissemination where appropriate and any recommendations are followed up at a later date by a Post Audit Review to ensure the required improvements have been implemented.

- 7.2 Intelligence from all corporate fraud/irregularities notified to and investigated by Internal Audit is used to:-
- Evaluate our response plan;
  - Inform the audit planning process to ensure fraud risks are taken into account; and
  - Inform the risk assessment tool within Galileo (audit management system) to ensure all auditable activities are correctly assessed.

## 8 RISK, INSURANCE AND INFORMATION GOVERNANCE

8.1 The Risk, Insurance and Information Governance Team provide services to the whole Council.

- 8.2 The key priorities for the team during 2023/24 are:-
- To continue to develop the Risk Management system across the Council including the development of operational risk registers.
  - To continue to deliver the Information Governance Work Plan which is being developed with the Information Governance Group to ensure that the Council is compliant with all Data Protection legislation.
  - To provide Data Protection/Information Governance advice and guidance to support services to ensure new systems, processes and partnership working involving the collection, sharing, processing and storage of personal data are compliant with Data Protection legislation
  - To work with senior managers to ensure that Business Continuity Plans are robust and fit for purpose and regularly reviewed to support management in responding to a major incident.
  - To review the insurance database used to ensure it is fit for purpose and that the reporting functionality is efficient and effective.
  - To review the information held and introduce regular reports for management in terms of claims received to inform and improve risk management process.
  - To continue to support managers to assess their risks as services are redesigned to ensure that changes to systems and procedures remain robust and resilient offering cost effective mitigation and that claims for compensation can be successfully repudiated and defended should litigation occur.

## 9. PERFORMANCE MONITORING

9.1 The performance of the service is monitored against targets and performance indicators. Individually auditors are monitored against performance targets. Customer questionnaires are also used at the conclusion of each audit to test customer reaction to the audit and to help identify any training needs or service improvements.

9.2 The Audit Plan will be continually monitored via monthly progress meetings between the Audit Management Team and regular update meetings with Executive Members, Senior Managers and External Audit and quarterly reports to the Audit Panel and the Greater Manchester Pension Fund Local Board.

9.3 The Public Sector Internal Audit Standards are the benchmark against which the performance and effectiveness of the Internal Audit service will be measured.

9.4 The performance indicators monitored and measured are detailed in Table 7 below.

**Table 7 – Performance Indicators**

	Indicator	Target
1	Compliance with Public Sector Internal Audit Standards	100%

2	% of Plan Completed	90%
3	Customer Satisfaction (per questionnaires)	90% of customers "satisfied ≥ 65%"
4	% Recommendations Implemented	90%
5	No. of Irregularities Reported/Investigated	Downward Trend
6	No. of Recommendations made	Downward Trend
7	Percentage No. of High Recommendations made	Downward Trend

9.5 The target for achievement is 90% of the agreed plan. However, high priority requests that arise during the year, changes in available audit resources and problem areas highlighted may affect the achievement of this target and result in the need for revisions to the agreed plan. All significant changes are agreed with relevant managers and Executive Members where appropriate and will be brought to the Panel for approval.

## 10. RECOMMENDATIONS

10.1 As set out on the front of the report.

AUDITABLE AREA	PURPOSE OF THE AUDIT	PRIORITY	AUDIT CATEGORY	PLANNED DAYS 2023/24
STAR - Contract Monitoring	To provide assurance that effective controls are in place in respect of monitoring the STAR Procurement Contract.	High	Contract	15
Grant Assurance Work	To provide assurance in relation to grant certification work.	Mandatory	Grant Certification Work	15
Delivery of the Savings Proposals	To provide assurance that savings plans are being monitored and delivered.	High	Assurance	20
Procurement Work - STAR	Review days included in the plan to work in collaboration with the other STAR Councils to provide assurance that effective controls are in place.	Mandatory	Contract	15
Post Audit Reviews	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	4
				<b>69</b>
Payments for contact/cash and credit card payments	To review the use of cash and credit card payments within Childrens Services.	High	Assurance	15
Leaving Care	To review the procedures in place for young adults leaving care.	High	Assurance	15
Monitoring of Placement Contracts	To review the monitoring of the placement contracts in place within Childrens Services.	High	Assurance	15
Supporting Families	To provide assurance that effective controls are operating effectively in relation to Supporting Families.	Mandatory	Assurance	10
Planning and Control	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes throughout the year are reflected in the plan where appropriate.	Mandatory	Planning	5
Advice and Support	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	5
Post Audit Reviews	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	10
				<b>75</b>
Primary Schools (8)	To review the Financial Management/ICT Procedures/Information Governance Procedures of the school to ensure robust processes and procedures are in place in accordance with best practice to deliver a strong control environment.	High	School Visits	48
High Schools (2)		High	School Visits	20

AUDITABLE AREA	PURPOSE OF THE AUDIT	PRIORITY	AUDIT CATEGORY	PLANNED DAYS 2023/24
Special Educational Needs and Disability (SEND)	To provide assurance that effective controls are operating effectively in relation to Special Educational Needs and Disability (SEND).	High	Assurance	15
Planning and Control	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes throughout the year are reflected in the plan where appropriate.	Mandatory	Planning	10
Advice and Support	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	6
Post Audit Reviews	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	12
				<b>111</b>

Homecare	To review the procedures and controls in place for the provision of Homecare within Adult Services.	High	Assurance	15
Budgetary Control & Financial Management - Adult Services	To review the procedures in place for budget monitoring and financial control within Adult Services.	High	Financial Control	15
Learning Disabilities Client Accounts	To provide assurance that effective internal controls are in operation in respect of the Learning Disabilities Accounts.	Mandatory	Assurance	15
Compliance with the Disabled Facilities Grant Pathway	To ensure that the grant has been spent in accordance with the grant conditions.	Mandatory	Assurance	20
Planning and Control	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes throughout the year are reflected in the plan where appropriate.	Mandatory	Planning	5
Advice and Support	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	5
Post Audit Reviews	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	13
				<b>88</b>

Substance Misuse - Treatment and Recovery Grant Assurance	To ensure that the grant has been spent in accordance with the grant conditions.	Mandatory	Assurance	<b>5</b>
Tameside Foundation Trust (ICFT) - Contract Monitoring	To review the monitoring of the contract between Public Health and the ICFT.	High	Assurance	15
Planning and Control	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes throughout the year are reflected in the plan where appropriate.	Mandatory	Planning	3



AUDITABLE AREA	PURPOSE OF THE AUDIT	PRIORITY	AUDIT CATEGORY	PLANNED DAYS 2023/24
Advice and Support	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	2
Post Audit Reviews	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	3
				<b>28</b>
<b>ESTATES AND FACILITIES MANAGEMENT</b>				
Estates - Acquisitions and Disposals	To provide assurance that effective controls are in place in respect of Estate Management of acquisitions and disposals.	High	Assurance	20
Monitoring Of The Facilities Management Contract	To provide assurance that effective controls are in place in respect of monitoring of the Facilities Management Contract.	High	Contract	20
Development Projects	To provide assurance that effective controls are in place in respect of delivering and monitoring Development Projects.	High	Contract	10
Godley Green Capital Project	To provide assurance that effective controls are in place in respect of the Godley Green Project.	High	Contract	10
Local Education Partnership	To ensure robust contract monitoring procedures are in place and value for money is being achieved.	High	Contract	20
Local Authority Bus Subsidy Grant	Certification to confirm that expenditure has been incurred in accordance with the grant conditions.	Mandatory	Grant Certification Work	2
Homelessness & Advice	To review the service provided and ensure appropriate controls are in place and operating effectively.	High	Assurance	15
Car Parks - System Sign Off	To provide assurance that effective controls are in place in respect of the new Transport System (Transys) relating to Home to School/Adult Clients Transport.	Mandatory	Assurance	6
Planning and Control	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes	Mandatory	Planning	10
Advice and Support	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	8
Post Audit Reviews	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	10
				<b>131</b>
<b>FINANCIAL SERVICES AND WORKFORCE DEVELOPMENT</b>				
Payroll System		High	Financial Control	15
Debtors	To provide assurance that effective controls are operating effectively in relation to the Debtors System.	Mandatory	Financial Control	20

AUDITABLE AREA	PURPOSE OF THE AUDIT	PRIORITY	AUDIT CATEGORY	PLANNED DAYS 2023/24
Housing Benefits	To provide assurance that effective controls are operating effectively in relation to the Housing Benefits System.	Mandatory	Financial Control	20
iTRENT Self Service	To ensure that appropriate procedures have been followed prior to implementation and that the system is fit for purpose and secure.	Mandatory	Assurance	5
Application review - Agresso	To provide assurance that the upgrades to the system are robust and fit for purpose.	High	Computer Audit	15
Registrars Financial Audit	An allocation is included in the Plan each year to review the records and income in respect of individual Registrars, on cyclical basis.	Mandatory	Assurance	5
Members Allowances - Publication	To provide data assurance in relation to the publication of members allowances.	Mandatory	Assurance	2
Duplicate Payment Exercise	To work with the service to identify potential duplicate payments for investigation.	Mandatory	Assurance	5
Car Allowances Annual Review	To provide data assurance in relation to Car Allowances	Mandatory	Assurance	2
Post Payment Assurance - Grants	Assurance work to confirm that payments have been made in accordance with the defined scheme.	Mandatory	Assurance	5
Planning & Control - Exchequer & Support Services/People and Workforce Development	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes throughout the year are reflected in the plan where appropriate.	Mandatory	Planning	10
Advice - Exchequer & Support Services/People and Workforce Development	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	16
Post Audit Reviews - Exchequer & Support Services/People and Workforce Development	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	12
				<b>132</b>

Payment Security PCI DSS	To provide assurance that the Payment Security PCI DSS system and processes are compliant with best practice and are robust and fit for purpose.	High	Computer Audit	15
ContrOCC - System Sign Off	To review and sign off the new system.	Mandatory	Assurance	8
Review of Financial Systems - General Ledger & Budgetary Control	Review of the procedures and internal controls within the Agresso General Ledger system and the Budget Monitoring process.	High	Financial Control	15
Income Management (Cashiers)	To review the procedures and internal controls within the Cashiers function.	High	Financial Control	10
Review of Financial Regulations	Review of update to Financial Regulations.	Mandatory	Advice	2

AUDITABLE AREA	PURPOSE OF THE AUDIT	PRIORITY	AUDIT CATEGORY	PLANNED DAYS 2023/24
Monitoring of Capital Programme	To provide assurance that controls are operating effectively in relation to the Monitoring of the Capital Programme.	Mandatory	Financial Control	20
George Byron Trust Audit of Accounts	To provide assurance that the accounts presented are in accordance with the supporting information provided.	Mandatory	Assurance	1
Planning and Control (Finance)	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes throughout the year are reflected in the plan where appropriate.	Mandatory	Planning	5
Advice and Support (Finance)	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	10
Post Audit Reviews (Finance)	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	13
Planning and Control (Digital)	Provision of days for planning/controlling the plan including activity reporting, meetings with Senior Management and Executive Members to ensure that changes throughout the year are reflected in the plan where appropriate.	Mandatory	Planning	5
Advice and Support (Digital)	Provision of days to support management in the development and maintenance of effective controls in light of new risk exposures and service changes.	Mandatory	Advice	2
Post Audit Reviews (Digital)	Follow up work to ensure that audit recommendations have been implemented.	Mandatory	Follow Up	15
				<b>121</b>
<b>GREATER MANCHESTER PENSION FUND Days To be Allocated</b>				<b>300</b>
				<b>1055</b>
<b>DAYS BROUGHT FORWARD FROM 2022/23 TO COMPLETE WORK IN PROGRESS AT THE YEAR END</b>				<b>20</b>
<b>FRAUD AND IRREGULARITY DAYS</b>				<b>414</b>
<b>TOTAL PLAN DAYS FOR 2023/24</b>				<b>1489</b>

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# Internal Audit Services

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## Internal Audit Strategy 2023/24

## INTRODUCTION

This document sets out the overall strategy for the Internal Audit Service for the 2023/24 financial year and the strategic approach to delivering Internal Audit Services in future years.

This longer-term perspective is necessary to give some indication of how assessed risks will be reviewed, as not all risks can, due to resource constraints, be subject to review within any one year. This longer-term perspective gives direction to service delivery.

## MAIN DRIVERS IN SETTING THE DIRECTION

The work of the Internal Audit Team responds to a number of needs, some of a statutory nature, some related to supporting others, and some arising from within the Council itself. In summary, the main service drivers are:-

- The Accounts and Audit Regulations 2015 (as amended);
- The requirements to meet the service scope and standards set out in the Public Sector Internal Audit Standards 2017;
- The corporate responsibilities for Section 151 of the 1972 Local Government Act and the requirement to provide assurance and support to the appointed Section 151 Officer;
- The requirements of the External Auditor;
- The desire to contribute to the achievement of council priorities, targets and objectives;
- The desire and need to meet the needs of the organisation and internal customers and external customers;
- The contributory role, in assisting with, the embedding and informing about risk management across the Council;
- Seeking to be more efficient and effective in service provision in accordance with good practice and Council policy; and
- The need for the Council to maintain an effective counter-fraud culture.

The Accounts and Audit Regulations 2015 (as amended) sets out the requirements for local authorities to undertake internal audit:

“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.”

The Public Sector Internal Audit Standards (PSIAS) 2017 in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note of 2019 provide the mission and definition of internal audit as:-

**Mission** – *To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*

**Definition** – *Internal Auditing is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:-

- Mission of Internal Audit;
- Definition of Internal Auditing;
- Core Principles for the Professional Practice of Internal Auditing;
- Code of Ethics; and
- The Standards.

Section 151 of the Local Government Act requires the Council (through the Chief Financial Officer) to ensure the proper administration of the Council's financial affairs. The work of the Internal Audit supports the appointed Section 151 Officer to administer the Council's finances in a sound manner related to the associated risks, and it provides information and assurance to the Chief Finance Officer on the extent of proper administration.

The service will continue to strive to be responsive to customers and their individual needs and to add value to the organisation where it can. It largely does this through acting as a control assurance function providing assurance to managers and to the organisation on its internal control and governance arrangements. It also adds value by highlighting inefficiencies and by supporting managers in the assessment and management of risk as new service delivery models are considered.

Advice - Internal Audit staff continuously provide advice on internal control and governance issues, and the management of risks, as risk and control experts. They do this when in the field on their designated audit, or in response to direct approaches to the internal audit office by customers seeking help and support. This helps to ensure the sound and effective control of business, strategic and operational risks within the Council as changes are considered.

Counter Fraud Culture - the work of Internal Audit through testing for and preventing and detecting fraud contributes to the corporate counter fraud culture. The service will also contribute to the Anti-Fraud, Bribery and Corruption Statement of Intent and will participate in activities set out in the Fraud Response Plan.

### **WHAT THIS MEANS WE NEED TO DO:-**

In meeting these drivers and organisational needs, the Internal Audit Service will:-

- Provide assurance on the Council's internal control system, by auditing both financial and non-financial risks;
- Audit the main financial systems and other systems related to possible material misstatements, regardless of comparative risk;
- Deliver risk based assurance on those controls that mitigate significant risks;
- Fully comply with best practice as defined by Public Sector Internal Audit Standards;
- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the risk management processes of the Council;
- Maintain ongoing effective relationships with the External Auditor and deliver complimentary plans of work so as to deliver an efficient audit service collectively, for the Council;
- Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within the Internal Audit Service or procured from approved providers e.g. Shared Services;
- Improve the efficiency and effectiveness of operations of the service;
- Promote good corporate governance and control practices and contribute to a good governance culture; and
- Work in a positive manner alongside customers, supporting them in the effective management of risk and service delivery.

### **HOW WILL WE DO THIS?**

**Review the whole internal control environment** - We will deliver a comprehensive plan of work such that the key elements of the internal control environment, including non-financial areas are covered on a cyclical basis. This will be evidenced through our Audit Plans. We will use this evidence to deliver an annual opinion on the internal control environment.

**Review of Main Financial and Material Systems** - We will deliver the review of the risk and controls in the Council's main financial systems on a cyclical basis to support the Chief Finance Officer (Section 151 Officer) to discharge her responsibilities.

**A System of Risk-Based Auditing** - is fundamental to our ability to comply with the assurance framework requirements that must be in place to comply with professional standards. We will continue to develop our risk based approach to ensure it is effective in providing assurance to managers within the Council and to members. We will continue to identify and review those areas which are most significant to the control of those risks that threaten the achievement of the Council's priorities and objectives.

**Compliance with Best Practice** – we have developed a methodology to measure our achievement of compliance with the PSIAS. We will monitor ourselves against these professional standards and rectify any gaps that are within our control.

**Relationship with Risk Management** - We are not responsible for the management of the Council's risks; this is entirely the responsibility of the Council's management. However, we will take account of the corporate risk management processes in the way we relate to managers in the control of risks. We will endeavour to emphasise the importance of risk management to all managers in the Council as part of the delivery of our service. We recognise that through our work we are assisting managers to better understand risk management. This is an important educational/informative role that adds value to the organisation. We will submit information of risks to the corporate owner of the Council's Corporate Risk Register as well as to managers to help keep the registers up-to-date and relevant.

**Relationship with External Auditor** – we will endeavour to work with the Council's External Auditor to share plans and maintain a process of regular liaison meetings to deliver an effective corporate assurance service to the Council.

**Relationship with other Internal Auditors** – As the Council continues on its integration journey with health partners we will endeavour to work with other Internal Auditors (Merseyside Internal Audit Agency), share plans and maintain a process of regular liaison meetings to deliver an effective corporate assurance service to the Strategic Commission.

**Appropriate Resources** – we will endeavour to maintain an effective number of staff to undertake the required workload supported by effective systems of operation. We will apply staff in the most effective way in accordance with their experience and skills and in accordance with the PSIAS. We will develop the experience of our staff by a development programme that gives them new pertinent skills, through a systematic development and training process. We will procure specialist services from approved suppliers where these skills are not available from within internal resources. The Computer Audit Plan is supplemented by procuring additional days from Salford MBC under the AGMA Computer Audit Shared Service Agreement.

**Efficiency Improvements** – We seek to minimise the time spent on audits whilst at the same time delivering effective audits. Our efficiency will also support more efficient service delivery by our customers as we try to minimise disruption and distraction to normal service delivery. We will comment on the efficient, economic and effective use of resources where appropriate in our Internal Audit work.

**Promoting Good Corporate Governance** – in all we do we will seek to promote good corporate governance, including the giving of advice and the assessment of internal controls. We will also contribute to both the Council's counter fraud culture and the development of its Anti-Fraud, Bribery and Corruption Statement of Intent through the programme of anti-fraud checks, and recommending updates to the above document. We will promote this via our work and in coordination with the External Auditor and other key governance managers within the Council.



# Internal Audit Services

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## Internal Audit Charter 2023/24

## **BACKGROUND**

The purpose of this Internal Audit Charter is to define Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of internal audit activities.

This Charter also covers the arrangements for the appointment of the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) and Internal Audit Staff, and identifies the nature of professionalism, skills and experience required.

The internal Audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS). The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) in respect of local government, have adopted the common set of standards. The initial PSIAS were introduced with effect from 1 April 2013, they were updated in 2017, and CIPFA published a Local Government Application Note for the UK PSIAS (February 2019). The PSIAS encompass all of the mandatory elements of the Chartered Institute of Internal Auditors International Professional Practices Framework (IPPF). Compliance with the Standards is subject to an ongoing quality assurance and improvement programme (QAIP) developed and introduced by Internal Audit to ensure continuous compliance with the Standards.

The mission and definition for Internal Audit are defined by the Public Sector Internal Audit Standards and detailed below:

## **MISSION**

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## **DEFINITION**

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **STANDARDS**

The Public Sector Internal Audit Standards require that the Internal Audit Charter defines the terms 'board' and 'senior management' in relation to the work of Internal Audit. For the purposes of internal Audit work, the 'board' refers to the Council's Audit Panel/Greater Manchester Pension Fund Local Board which have delegated responsibility for overseeing the work of Internal Audit. Senior management is defined as the Chief Executive and members of the Council's Single Leadership Team.

## **RESPONSIBILITY AND OBJECTIVES OF INTERNAL AUDIT**

Internal Audit is responsible for establishing procedures and applying the required resources to ensure that the service conforms with the Definition of Internal Auditing and the Standards. The members of the Internal Audit Team must demonstrate conformance with the Code of Ethics and the Standards.

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must deliver an annual audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. The Annual Audit Opinion must conclude on the overall adequacy and effectiveness of

the organisation's framework of governance, risk management and control. This is the 'assurance role' for internal Audit.

Internal Audit may also provide an independent and objective consultancy service, which is advisory in nature and generally performed at the specific request of the organisation. The aim of the consultancy service is to help line management improve the Council's risk management, governance and internal control. This is the 'Consultancy' role for Internal Audit and contributes towards the overall opinion.

## **RESPONSIBILITIES OF THE COUNCIL**

The Council is responsible for ensuring that Internal Audit is provided with all necessary assistance and support to ensure that it meets the required standards.

The Section 151 Officer will make appropriate arrangements for the provision of an Internal Audit Service. This will include the formal adoption of this Charter by the Audit Panel and the adoption of corresponding elements in the Financial Regulations.

The Council will ensure it has taken all necessary steps to provide Internal Audit with information on its objectives, risks, and controls to allow the proper execution of the Audit Strategy and adherence to internal audit standards. This will include notifying internal audit of any significant changes in key control systems which may affect the Internal Audit Plan.

The Council, through the Chief Executive, Section 151 Officer and other relevant managers, will respond promptly to audit plans, reports and recommendations.

Responsibility for monitoring and ensuring the implementation of agreed recommendations rests with the managers within the Council.

## **INDEPENDENCE OF INTERNAL AUDIT**

The internal Audit activity must be independent and Internal Auditors must be objective in performing their work. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must confirm, at least annually, the organisational independence of the internal audit activity. Internal Audit should have no operational responsibilities within the line management structure.

## **HEAD OF RISK MANAGEMENT AND (CHIEF AUDIT EXECUTIVE/HEAD OF AUDIT)**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will be appointed in accordance with the Council's Recruitment and Selection Policy and will have sufficient skills, experience and competencies to work with the Single Leadership Team, the Audit Panel and the Greater Manchester Pension Fund Local Board to influence the risk management, governance and internal control of the Council. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) is responsible for ensuring that there is access to the full range of knowledge, skills, qualifications and experience to deliver the Audit Plan and meet the requirements of the PSIAS. In addition to internal audit skills, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will specify any other professional skills that may be needed by the Internal Audit Team. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics.

## **RELATIONSHIPS**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) reports directly to the Assistant Director of Finance (Deputy Section 151 Officer) and the Director of Finance (Section 151 Officer). The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit), or an appropriate representative of the Internal Audit Team, shall attend meetings of the Audit Panel and

the Greater Manchester Pension Fund Local Board unless, exceptionally, the Panel/Board decides that they should be excluded from either the whole meeting or for particular agenda items.

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) shall have an independent right of access to the Chair of the Audit Panel and Greater Manchester Pension Fund Local Board. In exceptional circumstances, where normal reporting channels may be seen to impinge on the objectivity of the audit, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) may report directly to the Chair of the Audit Panel or Greater Manchester pension Fund Local Board.

Internal Audit and External Audit will agree a protocol for co-operation which will make optimum use of the available audit resources.

## **SCOPE OF INTERNAL AUDIT**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) should develop and maintain a strategy for providing the Chief Executive and the Section 151 Officer economically and efficiently, with objective evaluation of, and opinions on, the effectiveness of the Council's risk management, governance and internal control arrangements. The Audit Plan will be risk based, prepared in consultation with Directorate Management Teams and Executive Members and be presented to the Audit Panel and Greater Manchester Pension Fund Local Board for approval. The Head of Risk Management and Audit's (Chief Audit Executive/Head of Audit) Annual Opinion is a key element in the framework of assurance that the Chief Executive and the Executive Leader of the Council need to inform the completion of the Annual Governance Statement (AGS).

## **OPINION WORK**

The internal Audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach that is aligned with all of the strategies, objectives and risks to the Council.

## **GOVERNANCE**

Internal Audit must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:-

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the organisation; and
- co-ordinating the activities of and communicating information among the Audit Panel and Greater Manchester Pension Fund Local Board, External and Internal Auditors and management.

## **RISK MANAGEMENT**

Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes by assessing that:-

- organisational objectives support and align with the organisation's vision;
- significant risks are identified and assessed;
- appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

## INTERNAL CONTROL

Internal Audit must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The Internal Audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives;
- reliability and integrity of financial and operational information;
- economical, effective and efficient use of resources;
- effectiveness and efficiency of operations and programmes;
- safeguarding the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity corruption or bribery; and
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit utilise a dynamic risk based planning system designed to proactively identify audits to address any emerging and developing risks on an ongoing and 'future focussed' basis.

Internal Audit will promote and contribute to continuous ongoing improvements in systems across the Council by identifying and recommending best practice actions following audit work completed.

Where key systems are being operated on behalf of the Council or where key partnerships are in place the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must ensure arrangements are in place to form an opinion on their effectiveness.

Where the Council operates systems on behalf of other bodies, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must be consulted on the audit arrangements proposed or in place.

It is management's responsibility to ensure the provision for relevant audit rights of access in any contract or Service Level Agreement the Council enters into, either as provider or commissioner of the service.

## NON – OPINION WORK

Internal Audit may provide, at the request of management, a consultancy service which evaluates the policies, procedures and operations put in place by management. A specific contingency should be made in the Internal Audit Plan to allow for management requests and consultancy work.

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the Internal Audit Plan. In the event that the proposed work may jeopardise the delivery of the Audit Opinion, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must advise the Section 151 Officer before commencing the work. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must consider how the consultancy work contributes towards the overall opinion.

## FRAUD

Managing the risk of fraud is the responsibility of line management; however, the Section 151 Officer retains specific responsibilities in relation to the detection and investigation of fraud. The Internal Audit Service provides a counter fraud function that includes undertaking work of a proactive nature, conducting substantive audits in key risk areas as well undertaking some reactive work of an investigatory nature involving suspected fraud. In addition, the service is responsible for maintaining effective counter fraud policies and procedures for the Council including the Counter Fraud, Money Laundering and Bribery and Corruption policies. Internal Audit should be notified of all suspected or

detected fraud, corruption or impropriety, to inform their opinion on the control environment and their audit plan.

## **REPORTING**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will agree reporting arrangements with the Chief Executive and the Section 151 Officer which will include procedures for the:-

- distribution and timing of draft audit reports;
- Council's responsibilities in respect of responding to draft audit reports;
- distribution of finalised audit reports;
- follow up by Internal Audit of agreed recommendations; and
- escalation of recommendations where management responses are judged inadequate in relation to the identified risks.

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will present a formal report annually to the Chief Executive, Section 151 Officer and the Audit Panel and Greater Manchester Pension Fund Local Board giving an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management, and internal control. This report will conform to the PSIAS for the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) and will be timed to support the production of the Council's Annual Governance Statement. Reports of progress against the planned work will be presented to the Audit Panel and Greater Manchester Pension Fund Local Board on a regular basis during the year.

## **INTERNAL AUDIT ACCESS RIGHTS**

Designated auditors are entitled, without necessarily giving prior notice, to require and receive from the Council and any associated or contracted bodies including any shared service providers or trading companies:-

- access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature;
- access at all reasonable times to any land, premises, officer and member of the Council;
- the production of any cash, stores or other property of the Council under an officer's and member's control; and
- explanations concerning any matter under investigation.

## **INTERNAL AUDIT RESOURCES**

If the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) or the Audit Panel and Greater Manchester Pension Fund Local Board consider that the level of audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the Definition of Internal Auditing and the Standards, they should advise the Chief Executive and the Section 151 Officer accordingly.

# Internal Audit Services

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## Quality Assurance and Improvement Programme

2023/24

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## 1. Introduction

- 1.1 Internal Audit's Quality Assurance and Improvement Programme is designed to provide reasonable assurance to the various stakeholders of the Internal Audit activity that Internal Audit:-
- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards Mission for Internal Audit, Definition of Internal Auditing and Code of Ethics;
  - Operates in an effective and efficient manner; and
  - Is perceived by stakeholders as adding value and improving Internal Audit's operations.
- 1.2 Internal Audit's Quality Assurance and Improvement Programme covers all aspects of the Internal Audit activity in accordance with the Public Sector Internal Audit Standards, Standard 1300 (Quality Assurance and Improvement Programme), including:-
- Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner;
  - Ensuring compliance with the Public Sector Internal Audit Standards, Mission for Internal Audit, Definition of Internal Auditing and Code of Ethics;
  - Helping the Internal Audit activity add value and improve organisational operations;
  - Undertaking both periodic and on-going internal assessments; and
  - Commissioning an external assessment at least once every five years, the results of which are communicated to the Audit Panel and the Greater Manchester Pension Fund Local Board in accordance with Standard 1312.
- 1.3 The Head of Risk Management and Audit Services is ultimately responsible for the Quality Assurance and Improvement Programme, which covers all types of Internal Audit activities, including consulting.

## 2. Internal Assessments

- 2.1 In accordance with PSIAS Standard 1300, internal assessments are undertaken through both on-going and periodic reviews.

### On-going Reviews

- 2.2 Continual assessments are conducted through:
- Management supervision of all engagements;
  - Structured, documented review of working papers and draft reports by Internal Audit management;
  - Audit Policies and Procedures used for each engagement to ensure consistency, quality and compliance with appropriate planning, fieldwork and reporting standards;
  - Internal Quality Control Checklist to ensure consistency of reporting and reduce administrative error (**Appendix A**);
  - Feedback from audit clients obtained through Customer Satisfaction Questionnaires at the closure of each engagement (**Appendix B**);
  - Monitoring of internal performance targets (**Appendix C**) and annual outturn reporting to the Audit Panel;
  - Review and approval of all final reports, recommendations and levels of assurance by the Head of Risk Management and Audit Services and Principal Auditors; and
  - Regular team briefings.

### Periodic Reviews

- 2.3 Periodic assessments are designed to assess conformance with Internal Audit's Strategy, Charter, the Public Sector Internal Audit Standards Mission and Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of

Ethics, and the efficiency and effectiveness of Internal Audit in meeting the needs of its various stakeholders. Periodic assessments are conducted through:

- Quarterly Update Reports, presented to the Audit Panel and the Greater Manchester Pension Fund Local Board;
- Annual risk assessments, in accordance with the Audit Charter 2023/24 and the Audit Manual, for the preparation of the annual audit plan;
- Annual review of the Effectiveness of Internal Audit, undertaken by the Head Risk Management and Audit, using the PSIAS standards as the basis for the self-assessment;
- Annual review of compliance against the requirements of this Quality Assurance and Improvement Programme, the results of which are reported to the Audit Panel;
- Feedback from the Director of Finance, the Assistant Director of Finance and Audit Panel to inform the annual appraisal of the Head of Internal Audit, in accordance with Standard 1100;
- Annual Development Reviews conducted for each Internal Auditor based on the principles of the CIPFA Guidance document “The Excellent Internal Auditor” (2010) to inform the appraisal process and identify individual training and development needs.

2.4 Results of internal assessments will be reported to the Audit Panel and the Greater Manchester Pension Fund Local Board annually. The Head of Risk Management and Audit will implement appropriate follow-up to any identified actions to ensure continual improvement of the service.

2.5 Any significant areas of non-compliance with the Public Sector Internal Audit Standards that are identified through internal assessment will be reported in the Review of Internal Audit Report and Head of Risk Management and Audit’s Annual Report, which are both used to inform the Annual Governance Statement.

### **3. EXTERNAL ASSESSMENTS**

3.1 External assessments will appraise and express an opinion about Internal Audit’s conformance with the Public Sector Internal Audit Standards Mission of Internal Audit, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.

#### **Frequency of External Assessment**

3.2 An external assessment will be conducted at least every five years, in accordance with the Public Sector Internal Audit Standards. A system of Peer Reviews will be undertaken across the North West Chief Audit Executive Group. The Council’s Internal Audit Service was assessed in March 2018 and was judged to conform to the standards, some minor recommendations were made during the Peer Review and these are detailed in Section 4 below.

#### **Scope of External Assessment**

3.3 The external assessment will consist of a broad scope of coverage that includes the following elements of Internal Audit activity:

- Conformance with the *Standards*, Mission of Internal Audit, Definition of Internal Auditing, the Code of Ethics, and Internal Audit’s Charter, Strategy, plans, policies, procedures, practices, and any applicable legislative and regulatory requirements;
- Integration of the Internal Audit activity into Tameside’s governance framework, including the audit relationship between and among the key groups involved in the process;
- Tools and techniques used by Internal Audit;

- The mix of knowledge, experiences, and disciplines within the staff, including staff focus on process improvement delivered through this Quality Assurance and Improvement programme;
- A determination whether Internal Audit adds value and improves Tameside's operations.

3.4 Results of external assessments will be provided to the Director of Finance and the Assistant Director of Finance and the Audit Panel/Greater Manchester Pension Fund Local Board. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations identified. Any significant areas of non-compliance will be reported in the Annual Report of the Head of Risk Management and Audit and in the Annual Governance Statement.

3.5 The next scheduled assessment will be conducted in Summer 2023.

#### **4. SERVICE DEVELOPMENTS**

4.1 One recommendation remains outstanding from the Public Sector Internal Audit Standards External Peer Review conducted in March 2018, which related to the role of the SIRO.

<b>Recommendation</b>	<b>Progress as at February 2023</b>
<b>PSIAS Standard 1130</b> Consider allocating the formal SIRO designation to a chief officer, even if the internal audit team continues to support the SIRO function	This is still ongoing.

4.2 Other improvements to processes and procedures are identified below.

<b>Improvement</b>	<b>Responsible Officer/Proposed Deadline</b>
To review the audit process and the Quality Control Checklist to ensure they work effectively.	The Quality Control Checklist has been reviewed and updated. Interim Head of Risk Management and Audit Principal Auditor Actioned
To review all fraud related documentation, policies and procedures to ensure they are fit for purpose.	Ongoing. Principal Auditor/Fraud Investigators December 2023

#### **5. REVIEW OF THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

5.1 This document will be appropriately updated following any changes to the Public Sector Internal Audit Standards or Internal Audit's operating environment and will be reviewed at least on an annual basis.

QUALITY CONTROL CHECKLIST

QUALITY CONTROL CHECKLIST – NON SCHOOL AUDITS			
AUDIT:		REF NO:	
No.	Task	AUDITOR INITIALS/DATE	SUPERVISOR INITIALS/DATE
<b>1</b>	<b>ASSIGNMENT PLANNING</b>		
1.1	<p>Before an audit is allocated, the Principal Auditor needs to speak to the relevant AD and ask if the audit is still relevant and whether there are any issues in the area preventing us from doing the work.</p> <p>Need to ascertain from the AD if there are any:</p> <ul style="list-style-type: none"> <li>• Ombudsman complaints</li> <li>• Significant CRM complaints</li> <li>• Court Proceedings against the Council</li> <li>• HR Issues</li> </ul> <p>Principal Auditor to also check with Insurance to ensure there are no insurance issues/claims.</p>		
1.2	If any issues are highlighted, discuss further with HR/Legal to determine whether the audit should go ahead or be postponed.		
1.3	Assignment allocated to auditor(s) from Audit Plan and Galileo updated.		
1.4	Speak to key Auditee to agree the timing of the audit.		
1.5	<p>Familiarisation with audit area by reading/ reviewing:</p> <ul style="list-style-type: none"> <li>• Business Plan/other background papers/information (Intranet)</li> <li>• Review previous working paper file, report and PAR. Note any outstanding issues, which may impact upon the terms of reference.</li> <li>• CIPFA Matrices/TIS Online/Better Governance Forum</li> </ul>		
1.6	<p>Meet with key auditee(s) to discuss and agree the Terms of Reference and the expected dates for the Draft Report and Closure Meeting.</p> <p>Request access to the relevant systems as required. Also request any data downloads/reports that could be obtained to carry out analysis and testing.</p>		

**QUALITY CONTROL CHECKLIST – NON SCHOOL AUDITS**

1.7	Draft Terms of Reference for review by Principal/Senior Auditor		
1.8	Email approved Terms of Reference to: Auditee AD/D Chief Executive (SP) Monitoring Officer (SS) Section 151 Officer (PW) Executive Member Head of Legal Services AD People and Workforce Development Head of Resource Management External Audit (GM) BCC to Head of Risk Management and Audit		
1.9	Update Galileo with audit start date and the date the Terms of Reference was issued.		
<b>2</b>	<b>FIELDWORK</b>		
2.1	For each area of risk being reviewed, identify expected controls that need to be in place to manage those risks. Each risk and its expected controls need to be entered onto Galileo on the Internal Control Evaluation/Action Plan (ICEAP).		
2.2	To ascertain the actual controls in place send a copy of the ICEAP to the auditee and make an appointment to visit them to agree the actual controls.		
2.3	Record the actual controls in place as per management on the ICEAP at the meeting using your laptop where possible to reduce re-working.		
2.4	Compare the actual controls against the expected controls.		
2.5	Where there is no control or the control is unsatisfactory, record this as a finding and make an appropriate recommendation.		
2.6	Where the control appears to be satisfactory identify your testing and complete the testing section within Galileo.		
2.7	Agree test programme and prioritisation of the tests with Principal/Senior Auditor.		
2.8	Conduct tests and record results in Galileo in the Testing sections, attaching working papers where appropriate.		

**QUALITY CONTROL CHECKLIST – NON SCHOOL AUDITS**

	Use IDEA where possible to select samples and also to carry out tests.		
2.9	Monitor time closely to ensure planned days are not exceeded.  Ensure you leave yourself with some contingency days to undertake follow up work needed after the Draft Report and working papers have been reviewed by Principal/Senior.		
2.10	If you think you will exceed your planned days, you need to discuss progress with your Principal/Senior to review the scope and testing plan for the audit.		
2.11	Update the ICEAP with test results in terms of concise findings and recommendations.		
2.12	Discuss findings and recommendations with key auditee(s). Do not indicate what level of assurance may be allocated at this stage, in case it is altered when it is reviewed.		
<b>3</b>	<b>REPORTING</b>		
3.1	Produce the Draft Report comprising of Executive Summary, ICEAP and appropriate audit opinion.		
3.2	Ensure all required documents in respect of the audit are scanned into Galileo and stored in the working papers section.		
3.3	Pass the completed work and Draft report to Principal/Senior Auditor for review.		
3.4	Review notes compiled by Principal/Senior Auditor and followed up by Auditor concerned.		
3.5	If any HR or legal issues have been identified as part of the audit please arrange to speak to the Head of Legal Services or AD People and Workforce Development for clarification. The objective here is to ensure that Legal agree with the auditee and that HR can give consideration to issues highlighted as there may be wider implications.		
3.6	Auditor to start completion of the Job Appraisal Sheet.		
3.7	Send Draft Report to each Auditee via e-mail, stating that they will be contacted to arrange a closure meeting to discuss the report and obtain management responses.		

**QUALITY CONTROL CHECKLIST – NON SCHOOL AUDITS**

	Inform auditee(s) that they will be expected to have prepared responses to the recommendations and completed the action plan prior to the closure meeting.		
3.8	If a LOW Level of Assurance is given ensure that the appropriate AD is sent a copy of the Draft Report.		
3.9	Update Galileo accordingly.		
3.10	Arrange Closure Meeting within 2 weeks (of issue date) with all auditees responsible for implementing the recommendations (Principal/Senior Auditor to attend as appropriate).		
3.11	Attend Closure Meeting. At the meeting check again with all present whether there are any: <ul style="list-style-type: none"> <li>• Ombudsman complaints</li> <li>• Significant CRM complaints</li> <li>• Court Proceedings against the Council</li> <li>• HR Issues</li> </ul> Also check again with Insurance to ensure there are no insurance issues/claims?		
3.12	If there are any issues the audit must be discussed with the Head of Risk Management and Audit Services.		
3.13	Repeat stage 3.5 if any management responses received refer to Legal or HR.		
3.14	Compile Final Report, incorporating management responses within the Action Plan. (Also, action to be taken by whom and by when)		
3.15	Final Report reviewed by Principal/Senior Auditor.		
3.16	Final Report to be signed off by AD/D – Ask AD/D if any: <ul style="list-style-type: none"> <li>• Ombudsman complaints</li> <li>• Significant CRM complaints</li> <li>• Court Proceedings against the Council</li> <li>• HR Issues</li> <li>• Insurance Claims</li> </ul>		
3.17	Email Final Report to Head of Risk Management and Audit for review before it is issued.		
3.18	Email Final Report in PDF to: Auditees Director/Assistant Director, Chief Executive (SP) Monitoring Officer (SS)		

**QUALITY CONTROL CHECKLIST – NON SCHOOL AUDITS**

	Section 151 Officer (PW) Executive Member(s) Head of Resource Management External Audit		
3.19	If the Level of Assurance is LOW email a copy of the report to Councillor Oliver Ryan.		
3.20	Update Galileo accordingly, ensuring that the Level of assurance is entered correctly and that a copy of the Final Report is saved.		
3.21	Email Customer Questionnaire (CQ) and update Galileo accordingly. Add calendar date for follow up in two weeks.		
3.22	If CQ is not returned within two weeks of issue, chase it up and ensure receipt of completed questionnaire. Any problems should be reported to Principal/Senior Auditor.		
3.23	Enter date of receipt and CQ results into Galileo.		
3.24	Job Appraisal Sheet to be completed and discussed with Auditor.		
3.25	Ensure Galileo has been updated, a copy of the Final Report uploaded and the Level of Assurance recorded correctly.		
3.26	Auditor to schedule PAR in calendar for 3 or 6 months' time depending on level of assurance given.		
3.27	Update the PAR Spreadsheet with details		
<b>4</b>	<b>FOLLOW UP</b>		
4.1	<p>Before a Post Audit Review (PAR) is allocated, the Principal Auditor needs to speak to the relevant AD and ask if the PAR is still relevant and whether there are any issues in the area preventing us from doing the work.</p> <p>Need to ascertain from the AD if there are any:</p> <ul style="list-style-type: none"> <li>• Ombudsman complaints</li> <li>• Significant CRM complaints</li> <li>• Court Proceedings against the Council</li> <li>• HR Issues</li> </ul> <p>Principal Auditor to also check with Insurance to ensure there are no insurance issues/claims.</p>		
4.2	Principal Auditor to determine the number of days for the PAR and update Galileo accordingly.		



**QUALITY CONTROL CHECKLIST – NON SCHOOL AUDITS**

4.3	When allocated with a PAR issue the Post Audit Review documentation to the responsible Officers.		
4.4	Update the PAR spreadsheet.		
4.5	Arrange a meeting to discuss the PAR and obtain confirmation of what action has been taken.		
4.6	Conduct PAR, based upon information received. Ensure that adequate testing is undertaken and evidence is obtained and uploaded on to Galileo to support implementation of the recommendation(s).		
4.7	Compile PAR, incorporating management responses and Internal Audit Findings.		
4.8	PAR reviewed by Principal/Senior Auditor.		
4.9	Obtain sign-off from AD/D - Ask AD/D if any complaints, ombudsman complaints or HR issues are ongoing which may be affected if the PAR were to be issued.		
4.10	Email a copy of PAR to the Head of Risk Management and Audit for comments. Indicate whether it contains any outstanding significant recommendations that need to be reported to the Audit Panel or Ethics and Audit Working Group.		
4.11	Once review points have been cleared the Head of Risk Management and Audit will obtain clearance from Legal and HR before the PAR can be issued.		
4.12	Issue PAR to all recipients of the Final Report.		
4.13	Update Galileo accordingly		
4.14	Update the PAR Spreadsheet accordingly.		
4.15	Save a copy of the finalised PAR in Galileo.		
4.16	If a follow up PAR is needed, schedule in calendar, update Galileo and the PAR Spreadsheet accordingly.		
4.17	When the follow up PAR is due, follow steps 4.1 – 4.13		

CUSTOMER SATISFACTION QUESTIONNAIRE

# Internal Audit Services

## Customer Satisfaction Questionnaire – (Title of Audit) Auditor –

Internal Audit is continuously looking at ways of improving the quality of service that we provide. Please could you complete this questionnaire to help us ensure that the service we provide is of the highest possible standard.

Please put a score against each statement using the criteria below:-

### Ratings

5 = Excellent    4 = Good    3 = Fair    2 = Weak    1 = Unsatisfactory

### Audit Planning

Consultation of audit coverage, process and timing.	
---	--

### Audit Process

Were interruptions to your operations kept to a minimum?	
--	--

How well did we achieve the scope and objectives?	
---	--

Did the audit cover the relevant business risks?	
--	--

### Quality of Audit Report

Clarity of report.	
--------------------	--

How well did we communicate the findings of the audit prior to issuing the draft report?	
--	--

Accuracy of audit findings.	
-----------------------------	--

Value/practicality of audit recommendations.	
--	--

### Timing

Duration of the audit.	
------------------------	--

Timeliness of the draft audit report.	
---------------------------------------	--

### Auditor

Communication with yourself and the auditees.	
---	--

At the conclusion of the audit how well did the auditor understand the subject?	
---	--

Was the auditor responsive to what he/she was told?	
---	--

**Equality**

During the process have you been treated fairly with regards to ethnicity, gender, disability, ages, religion/belief and sexual orientation?	
--	--

If you have marked any of the questions overleaf as **Weak** or **Unsatisfactory**, please could you take a moment to detail why in the box below.

Was there anything about the audit that you especially liked/disliked?

Do you have any comments about the format of the audit report?

Was the audit useful?

Was the audit relevant?

Have you any suggestions as to how we can improve?

In order to continuously improve the service we provide, all feedback received is recorded and analysed. Please be aware that you may be contacted for further details regarding your comments or suggestions.

**Form completed by:**

**Name:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Thank you for completing this questionnaire. Please return it to [christine.weston@tameside.gov.uk](mailto:christine.weston@tameside.gov.uk)



## INTERNAL AUDIT – PERFORMANCE TARGETS

CATEGORY	DESCRIPTION	NARRATIVE	HOW IT'S MEASURED	TARGET	REPORTED TO
Compliance	Public Sector Internal Audit Standards Compliance	Level of compliance with requirements of Public Sector Internal Audit Standards / Local Government Application Note	Annual Self-Assessment / External Assessment (5 yearly)	100%	Audit Panel
Outputs	Audit Coverage	% of Plan Complete	Audit time recording / workflow management system	90%	Audit Panel
Outputs	Audit Impact	% Recommendations Implemented	Audit time recording / workflow management system	90%	Audit Panel
Quality	Customer Satisfaction	90% of customers "satisfied ≥ 65%"	Customer Satisfaction Questionnaire	100%	Audit Panel
Outputs	Fraud Cases	No. of Irregularities Reported/Investigated	Audit time recording / workflow management system	Downward Trend	Audit Panel

## INTERNAL AUDIT – PERFORMANCE DATA

CATEGORY	DESCRIPTION	NARRATIVE	HOW IT'S MEASURED	TARGET	REPORTED TO
OUTPUTS	Public Sector Internal Audit Standards Compliance	Final Reports Issued Number/Type of Recommendations Made Percentage of High Recommendations Made	Extracted from Audit Management Software.	Downward Trend	SLT - Corporate Health/ Performance Monitoring Scorecard

# Agenda Item 12.

<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	14 March 2023
<b>Reporting Officer:</b>	Stuart Fair – Interim Director of Finance Christine Weston–Interim Head of Risk Management and Audit Services
<b>Subject:</b>	<b>NATIONAL FRAUD INITIATIVE REPORT</b>
<b>Report Summary:</b>	To advise members of the report produced by the National Fraud Initiative summarising the findings from the 2020/2022 exercise.
<b>Recommendations:</b>	Members note the report.
<b>Links to Corporate Plan:</b>	No direct links but supports the individual operations within the Community Strategy.
<b>Policy Implications:</b>	Effective Counter Fraud arrangements demonstrate a commitment to high standards of corporate governance.
<b>Financial Implications:</b> (Authorised by the Borough Treasurer)	Fraud diverts money away from service delivery and therefore it is important that effective counter fraud arrangements are in place to minimise losses relating to fraud.
<b>Legal Implications:</b> (Authorised by the Borough Solicitor)	Demonstrates compliance with the Accounts and Audit Regulations 2015 and Part 6 and Schedule 9 of the Local Audit and Accountability Act 2014.
<b>Risk Management:</b>	The fundamental challenge that public bodies face with fraud is that it is a hidden crime – those committing it actively try to conceal it so we must be proactive in our efforts to seek it out. The National Fraud Initiative conducted by the Cabinet Office, involves data matching exercises to help in the prevention and detection of fraud, overpayments and errors. The investigation of the matches enables the Council to combat the risk of fraud, by building any learning from the results back into the systems and processes used to improve internal controls.
<b>Access to Information:</b>	The background papers can be obtained from the author of the report, Christine Weston, Interim Head of Risk Management and Audit Services by contacting:  Telephone: 0161 342 2356  e-mail: <a href="mailto:christine.weston@tameside.gov.uk">christine.weston@tameside.gov.uk</a>

## 1. BACKGROUND

- 1.1. The National Fraud Initiative (NFI) matches data to help in the prevention and detection of fraud. The NFI provides multiple solutions ranging from real time point-of-application fraud prevention checks, through the national batch data matching exercise which helps those that take part detect active fraud cases within systems.
- 1.2. Data for the NFI is provided by over 1,100 participating organisations from the public and private sectors, including local authorities, government departments, and private registered providers of social housing and pension schemes. The NFI works with public audit agencies in all parts of the UK. Data matching involves comparing sets of data electronically, such as the payroll or benefit records of a body, against other records held by the same or another body, to see to what extent they match. This data is usually comprised of personal information.
- 1.3. The NFI data matching identifies inconsistencies that require further investigation and allows potentially fraudulent claims and payments to be identified. Participating organisations receive the resulting data matches for consideration and investigation where appropriate. No assumption can be made as to whether there is fraud, error or another explanation for those matches until an investigation process is completed, and an organisation can then take the appropriate action. This may be to prosecute cases of fraud, recover overpayments, correct underpayments and update records as appropriate. There is also an opportunity for participants to use data matches to identify risks and weaknesses within systems and review controls.
- 1.4. The NFI is conducted under the Local Audit and Accountability Act 2014. This allows the Secretary of State or the Minister for the Cabinet Office to require certain public sector bodies to provide data for NFI processing on a mandatory basis for the prevention and detection of fraud. In addition, certain bodies can also provide data for matching on a voluntary basis.

## 2. SUMMARY REPORT FINDINGS

- 2.1. The NFI report 2022, is attached at **Appendix 1** and states that fraud is a long-standing threat to public services estimated to account for 40% of all crime committed across the UK. In addition, fraudsters took advantage of the emergency funding during the coronavirus (COVID-19) pandemic, attacking schemes designed to deliver support to many taxpayers and businesses who needed it.
- 2.2. The report is divided into several sections listed below:
  - Foreword
  - About the NFI
  - Fraud, Overpayments and Errors identified and prevented across the UK
  - Outcomes by Risk Area
  - Main Messages and Case Studies
  - NFI Pilots, Innovation and Future Plans
  - Comparison Data
- 2.3. The NFI has enabled participating organisations within the UK to prevent and detect £443 million fraud and error in the period April 2020 to March 2022. This brings cumulative outcomes for NFI participants to £2.4 billion.
- 2.4. This £443 million can be analysed by area in **Table 1** below.

**Table 1 – Analysis by Area**

Area	Amount of Fraud and Error
England	£416.8m
Scotland	£14.9m
Wales	£6.5m
Northern Ireland	£4.4m
<b>Totals</b>	<b>£442.6m</b>

2.5. The total amount of detected fraud, overpayments and errors in England is shown in **Table 2** below, for both the 2018-2020 exercise and the 2020-2022 exercise. There has been an increase between the two periods of 93%, notably Pension Fraud increased by 350%, mainly in respect of mortality screening matches. The top four categories of detected fraud being Pensions, Council Tax, Housing Benefit and Blue Badges.

**Table 2 – Analysis of Value by Risk Area for 2022 Compared to 2020**

Risk Area	2020 £m	2022 £m	Direction of Travel
Pensions	55.5	250	↑
Council Tax	43.9	44.7	↑
Housing Benefit	35	14.4	↓
Blue Badges	26.9	24.4	↓
Housing Waiting List	20.1	21.8	↑
Council Tax Reduction Scheme	6.5	5.2	↓
Housing Tenancy	5.6	2.3	↓
Residential Care Homes	5.1	0.9	↓
Trade Creditors	5.1	6.1	↑
Pilots and Grants Tools (excluding HMRC)	3.5	39.7	↑
Concessionary Travel	3.4	5.5	↑
Personal Budgets	2.1	0.1	↓
Right to Buy	1.8	0.2	↓
Other	0.8	0.4	↓
Payroll	0.6	0.3	↓
Procurement	0	0.8	↑
<b>Totals</b>	<b>215.9</b>	<b>416.8</b>	

2.6. The report provides key messages in relation to each of the risk areas and features case studies demonstrating how Councils have used the data matches successfully.

2.7. The NFI introduce new data sets and matches and these are usually piloted first to understand the data and the outcomes. One of these pilots taking place in Tameside received a match showing that a business had been claiming Small Business Grant Funds from multiple councils despite not being entitled to them. Over £40,000 will be reclaimed from the business as a result of this (see page 35 of the report).

### 3. LOOKING FORWARD

3.1. The NFI continue to consult with users to improve the functionality and processes of the user interfaces, as well as maintaining a pipeline of pilots to be delivered according to available resources and conducting internal reviews of the efficiency of their practices.

3.2. The NFI launched Phase 1 of an innovative tenancy fraud pilot in 2022 which will use data from the public and private sectors to target tenancy fraud such as subletting and illegal succession.

- 3.3. The NFI will support the work of the newly formed Public Sector Fraud Authority (PSFA) and link into new data analytics services to enhance the techniques and data utilised to target fraud.
- 3.4. The NFI contract with their current IT supplier has been extended to December 2024, providing clarity on the delivery model for the NFI 2022/23 exercise. During 2022/23, the service requirements for the NFI 2024/25 and beyond will be reassessed. Feedback will be sought from stakeholders and NFI users on the future shape of the NFI, and any planned activities set out in the report.

#### **4. EXPANSION OF NFI DATA MATCHING PURPOSES**

- 4.1. In 2021 the Cabinet Office led a consultation on whether and how the NFI should be extended to a range of new areas in addition to fraud. This formal consultation supplemented a period of engagement with a range of organisations, including current NFI participants, on the question of extending the NFI to new areas.
- 4.2. Based on feedback, the NFI focused on four areas in the consultation. Whether the NFI should be extended to assist in:
  - The prevention and detection of errors and inaccuracies generally.
  - The recovery of debt owed to public bodies.
  - The apprehension and prosecution of offenders.
  - The prevention and detection of wider crime.
- 4.3. Following mixed feedback it has been decided that fraud will remain the focus of the NFI in coming years and the service will not be extended to additional areas at this time. The Cabinet Office will review the decision and continue to welcome feedback from stakeholders and interested parties on the subject of extension.

#### **5. RECOMMENDATION**

- 5.1. As set out on the front of the report.





# National Fraud Initiative Report 2022



# National Fraud Initiative Report

## 2022 Report

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## Foreword

Fraud is estimated to account for 40% of all crime committed across the UK and is a long-standing threat to public services. In addition, fraudsters took advantage of the emergency funding during the coronavirus (COVID-19) pandemic, attacking schemes that were designed to deliver to many who were hard pressed and needed support, whether that be taxpayers or businesses.

The government is deeply committed to reducing fraud and ensuring hard working taxpayers' money is spent on those for whom it is intended.



...I would particularly like to thank those local authorities, NHS trusts and partner organisations that the NFI supports, for their tenacity and commitment.”

In this context, I am delighted to report that the National Fraud Initiative (NFI), based in the Cabinet Office, has enabled participating organisations to prevent and detect/recover £443 million fraud and error across the UK (of which £417 million is for England), in the period April 2020 to March 2022, through the provision of counter fraud data matching services. This takes the NFI programme cumulative savings to £2.4 billion since its creation in 1996. These outcomes exclude the non-financial benefits also experienced by participants, such as improvements in the accuracy of records, or a greater knowledge of the extent and types of risks their organisations might face.

The NFI was heavily impacted by the demands placed on the public and private sector participants during the pandemic. Resources usually allocated to the investigation of NFI matches were diverted into other areas including disbursement of large scale COVID-19 grant schemes. Initially this means that delivery is lower in some areas than was reported in 2020.

However, despite these challenges the NFI has continued to deliver, including securing a one-off “windfall” of £205 million from Civil Service Pensions who use the NFI pension mortality screening service. We anticipate that the amount of fraud prevented and detected through the NFI will return to previous levels from 2022 onward.

Beyond the significant counter benefits reported here, I would like to highlight the following areas:

**Innovation** - the NFI has continued to innovate over the last two years, developing a pipeline of data matching pilots and delivering a programme of innovations and improvements. These are targeted towards both the public sector and the private sector to maximise the impact of the data it holds against fraud as a whole.

**Public/Private sector partnership** - the NFI has also seen increased outcomes from their work sharing public sector data with the private sector to highlight applicants for services that misrepresent their identity, or their residency. The expansion from utility companies to car hire and insurance has seen outcomes rise from £3.2m in 2020 to £33m in 2022. This public/private partnership work clearly aligns with the recommendations of the Economic Crime Plan.



## Foreword

**New products** - the NFI has continued to develop the user base of their FraudHub tool (that allows organisations to carry out NFI matching at a time to suit them in a secure environment) from 15 organisations in hubs in 2020 to 35 at the end of September 2022, a 230% increase, that will see more frequent and targeted data matching activity to support Local Authorities.

**Cost/Value for Money** - the NFI continues to be cost neutral to central government, funding its activity (including pay) through fees levied on participants and through charged-for services including to the private sector, demonstrating exceptional value for money.

I would particularly like to thank those local authorities, NHS trusts and partner organisations that the NFI supports, for their tenacity and commitment. Prevention and detection of fraud and error at this scale is only made possible thanks to the hard work and diligence of staff at the sharp end, responding promptly to requests for collection of data to address emerging risks, working the flags, detecting/recovering and preventing fraud and reporting outcomes. This helped protect against fraudulent COVID-19 emergency relief funding claims. They did this while also continuing to provide vital services and support to many vulnerable businesses and individuals.

Given the unprecedented challenges facing these organisations the successes set out in this report is to be truly commended. This report celebrates the work of the counter fraud teams across the UK.

Finally, in August 2022, the NFI became part of the new Public Sector Fraud Authority. With £25 million investment over the next three years the Authority's remit includes greater focus on counter fraud performance and outcomes as well as increased depth and breadth of support to public sector bodies. With an increased focus on data analytics, the Authority will provide further opportunity for the NFI to support public bodies and further develop its products to reduce fraud in public services, ensuring that taxpayers' money is spent where it is needed most.

**The Rt Hon Jeremy Quin MP, Paymaster General and Minister for the Cabinet Office**



## About the National Fraud Initiative

The National Fraud Initiative (NFI) matches data to help in the prevention and detection of fraud. The NFI provides multiple solutions, ranging from real time point-of-application fraud prevention checks, through to the national batch data matching exercise which helps those that take part detect active fraud cases within systems.

Data for the NFI is provided by over 1,100<sup>1</sup> participating organisations from the public and private sectors, including local authorities, government departments, private registered providers of social housing and pension schemes. The NFI works with public audit agencies in all parts of the UK.

Data matching involves comparing sets of data electronically, such as the payroll or benefit records of a body, against other records held by the same or another body, to see to what extent they match. This data is usually comprised of personal information<sup>2</sup>.





The NFI data matching identifies inconsistencies that require further investigation and allows potentially fraudulent claims and payments to be identified. Participating organisations receive the resulting data matches for consideration and investigation where appropriate. No assumption can be made as to whether there is fraud, error or another explanation for those matches until an investigation process is completed, and an organisation can then take the

appropriate action. This may be to prosecute cases of fraud, recover overpayments, correct underpayments and update records as appropriate. There is also an opportunity for participants to use data matches to identify risks and weaknesses within systems and review controls.

The NFI is conducted under the Local Audit and Accountability Act 2014. This allows the Secretary of State or the Minister for the Cabinet Office to require certain public sector bodies to provide data for NFI processing on a mandatory basis for the prevention and detection of fraud. In addition, certain bodies can also provide data for matching on a voluntary basis.

Outcomes from NFI related investigations incomplete as of the 31st March 2022 will be captured and reported in 2024, alongside outcomes from the 2022/23 NFI exercise.

This report captures outcomes<sup>3</sup> recorded in the period 5th April 2020 to 31st March 2022<sup>4</sup> against:

-  Against NFI 2018/19<sup>5</sup> exercise matches
-  Against NFI 2020/21<sup>6</sup> exercise matches
-  Recorded in FraudHub, AppCheck and ReCheck products
-  Pilots undertaken during this period, including a second pilot with HM Revenue and Customs (HMRC) under the Digital Economy Act 2017 to target undeclared property ownership; undeclared earnings and capital; and undeclared persons in a household

<sup>1</sup> During this reporting period there were a number of local authority and NHS mergers, reducing the overall number of participants

<sup>2</sup> The data requirements for the NFI exercise are set out in published [data specifications](#)

<sup>3</sup> The NFI financial outcomes are made up of actual overpayments detected and estimated future losses prevented

<sup>4</sup> The 2020 reporting period ended 4th April which was the date nearest to 31st March when management information was available to produce the report. This 2022 report covers the period from 5th April 2020 to 31st March 2022

<sup>5</sup> NFI 2018/19 is the national data matching exercise. Data is collected in October 2018 and matches released in January 2019. This report captures outcomes recorded against 2018/19 matches recorded in the period from 5th April 2020 to 31st March 2022.

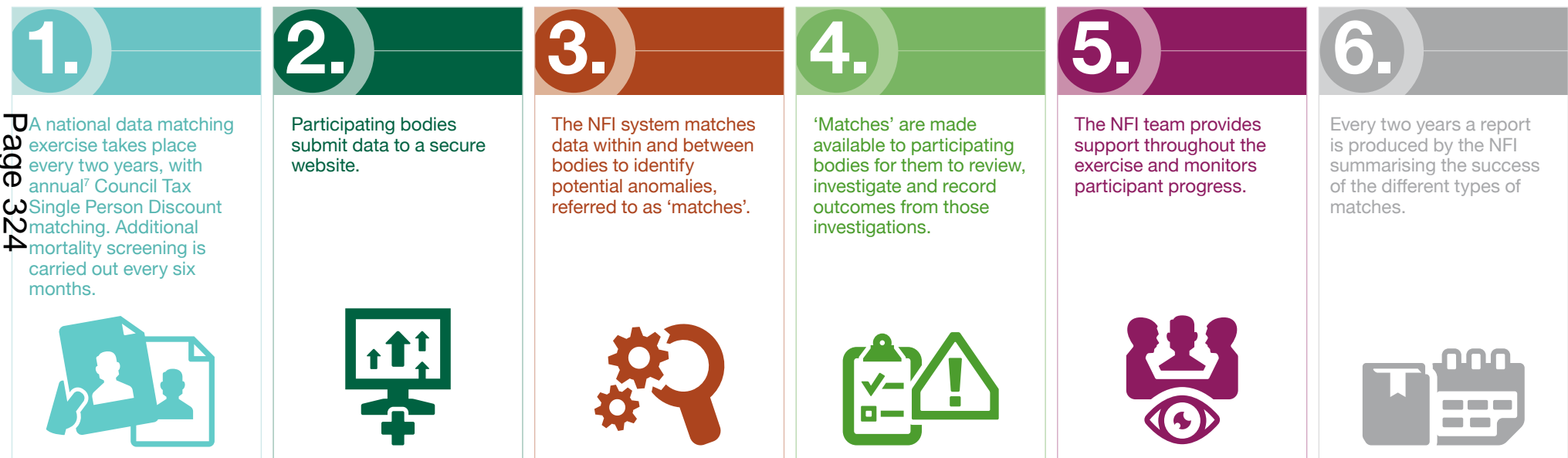
<sup>6</sup> NFI 2020/21 is the national data matching exercise. Data is collected in October 2020 and matches released in January 2021

## The NFI services

### National Exercises

Data is collected from organisations across the UK for national fraud detection batch matching every two years. Matches are accessed through a secure web application.

### The NFI matching cycle



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FraudHub enables individual organisations or groups of neighbouring organisations to regularly screen more than one dataset with the aim of detecting errors in processing payments, or benefits and services.



AppCheck is a fraud prevention tool that helps organisations to stop fraud at the point of application, thereby reducing administrative and future investigation costs.

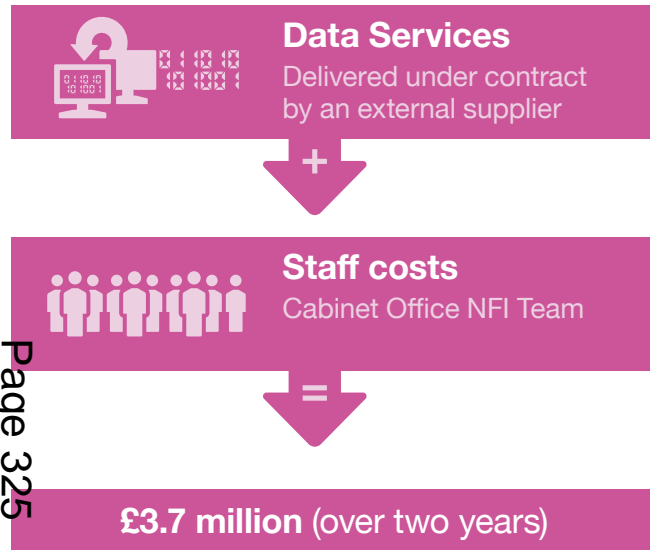


ReCheck is a flexible batch matching tool that allows an organisation to repeat national batch matching at a time to suit them.

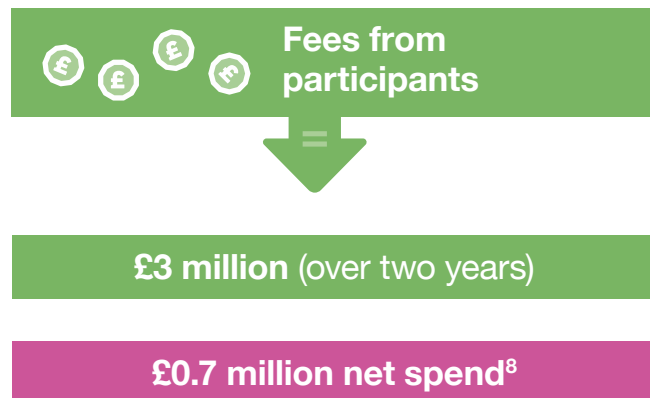
<sup>7</sup> Scottish bodies are mandated every two years

## Cost of running the NFI

### Main Expenditure



### Income



**£442.6 million outcomes**



**versus £3 million fee income**

### Example fees



#### 2020/21 National

- London Borough Council **£4,200**
- County Council **£3,800**
- District Council **£2,450**
- Police **£1,200**
- NHS Foundation Trust **£1,150**



AppCheck

Sliding scale from **£275** for 250 searches to **£850** for 1,000 searches, or **£1,850** annual membership (unlimited searches)



ReCheck

**£330** per dataset for 1-20 datasets, or **£275** per dataset (20+)



FraudHub

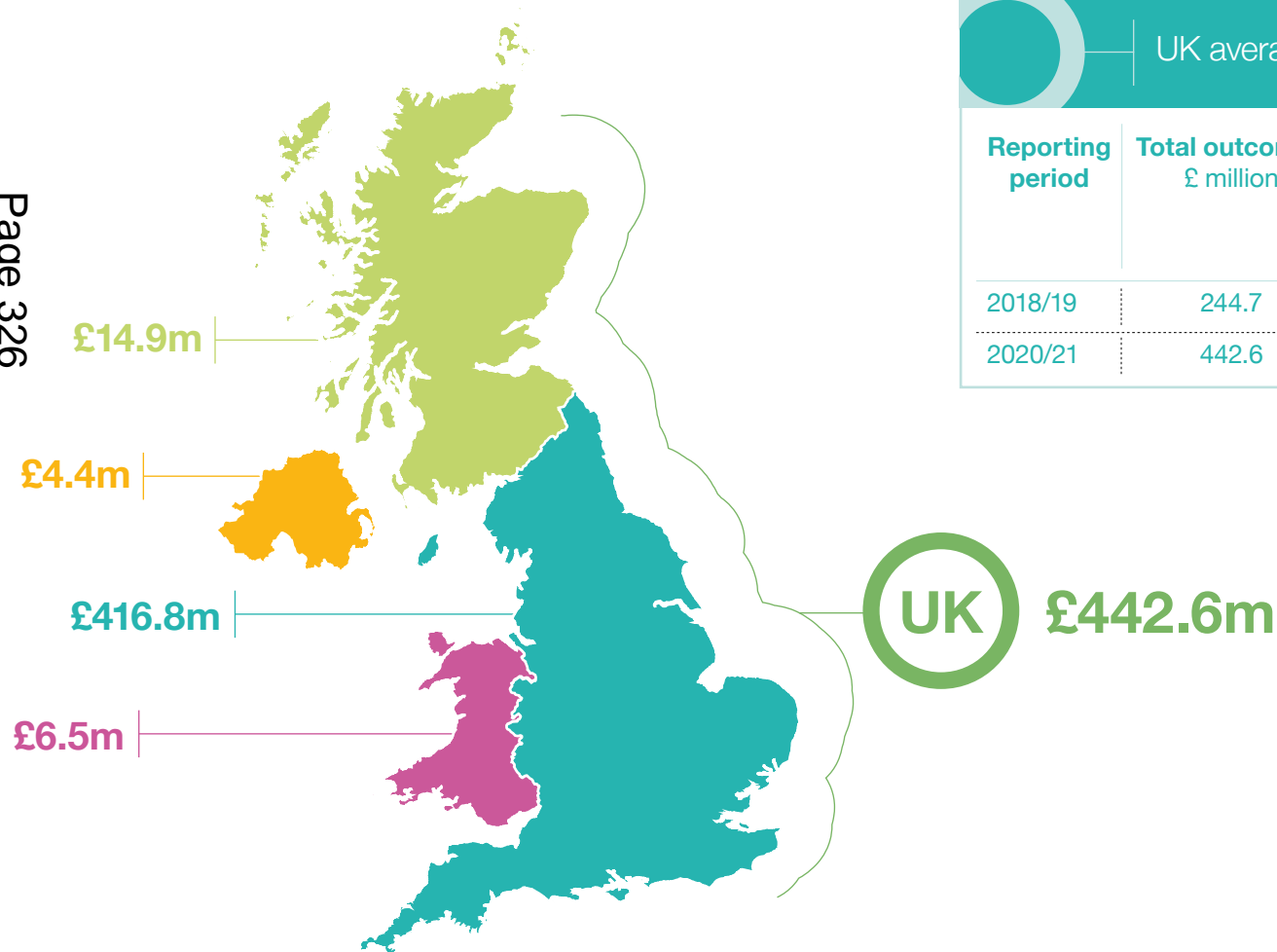
**£1,840 to £7,640** annual membership dependent on type of public sector body

<sup>8</sup> This reporting period the NFI received additional government funding for COVID-19 work which led to a net spend of £0.7 million.

## Fraud, overpayments and errors identified and prevented across the UK (1996 to 2022)

Results for the period 5th April 2020 to 31st March 2022

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### UK average financial outcomes per case

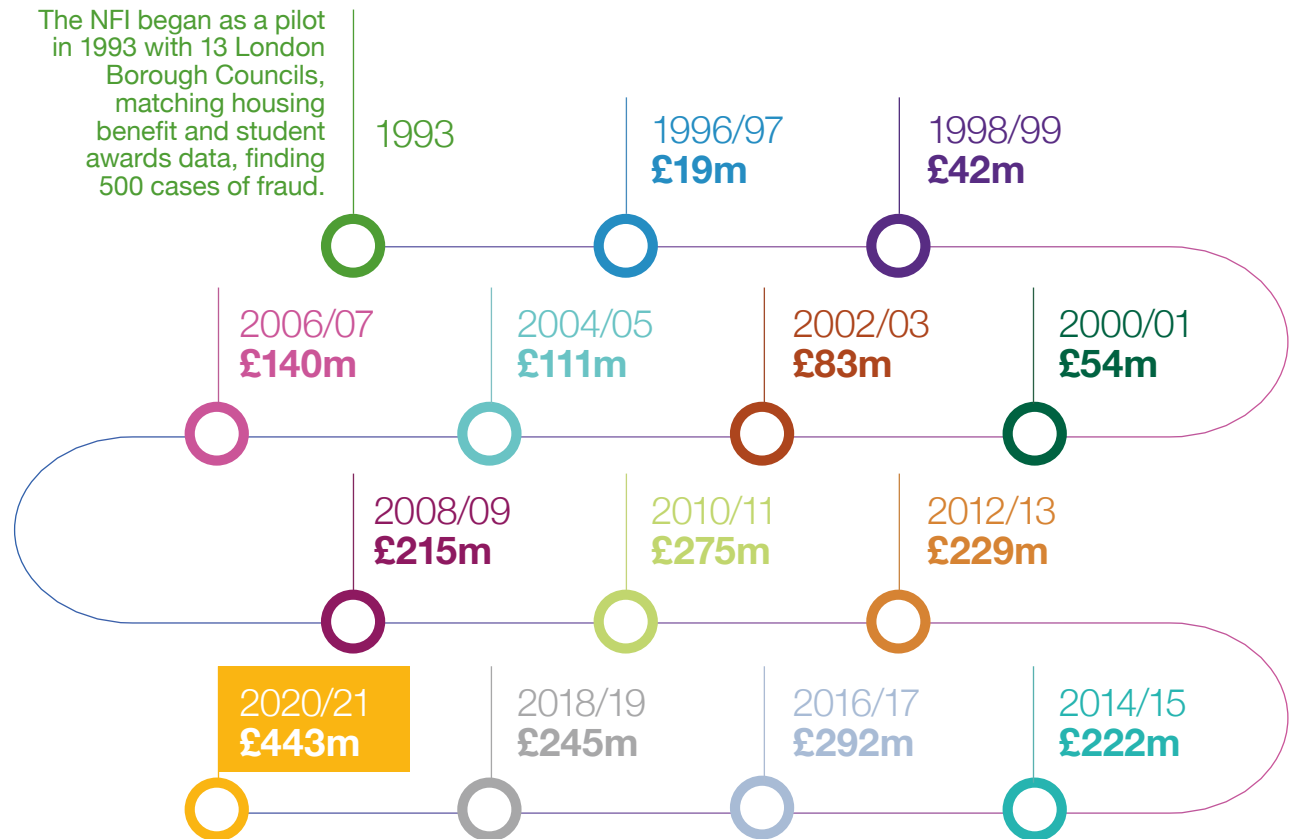
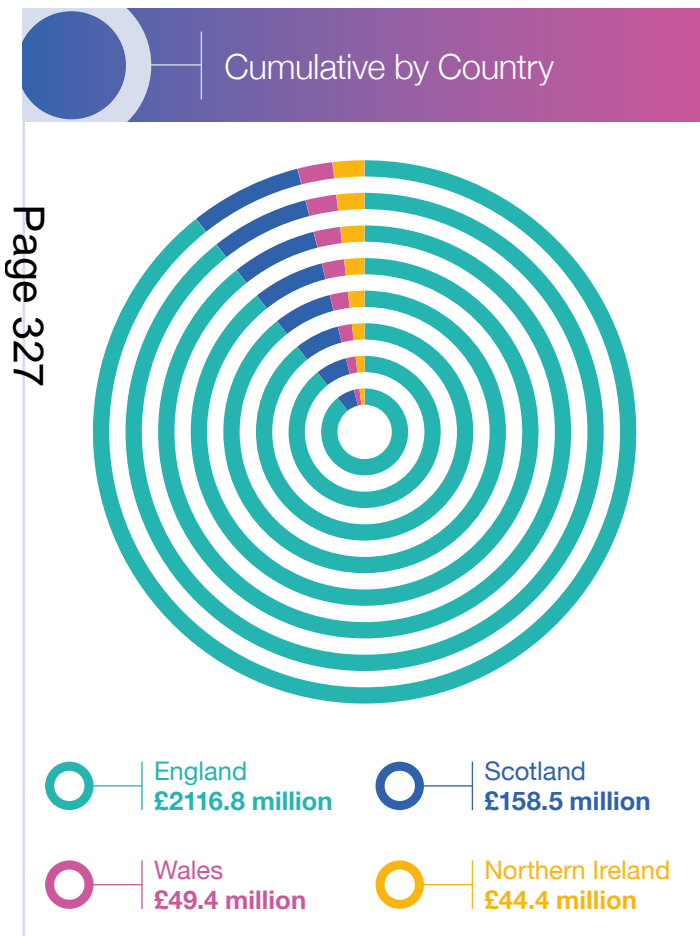
Reporting period	Total outcomes £ million	Number of cases categorised as error or fraud	Average outcomes per case	Percentage change
2018/19	244.7	304,423	£803.85	
2020/21	442.6	325,332	£1360.51 <sup>9</sup>	69% increase

<sup>9</sup> The significant increase in the number and value of pension cases in this reporting period that related to 2018/19, has contributed to the percentage increase. Refer to page 14 for more details.



## Cumulative fraud, overpayments and errors identified and prevented across the UK (1996 to 2022)

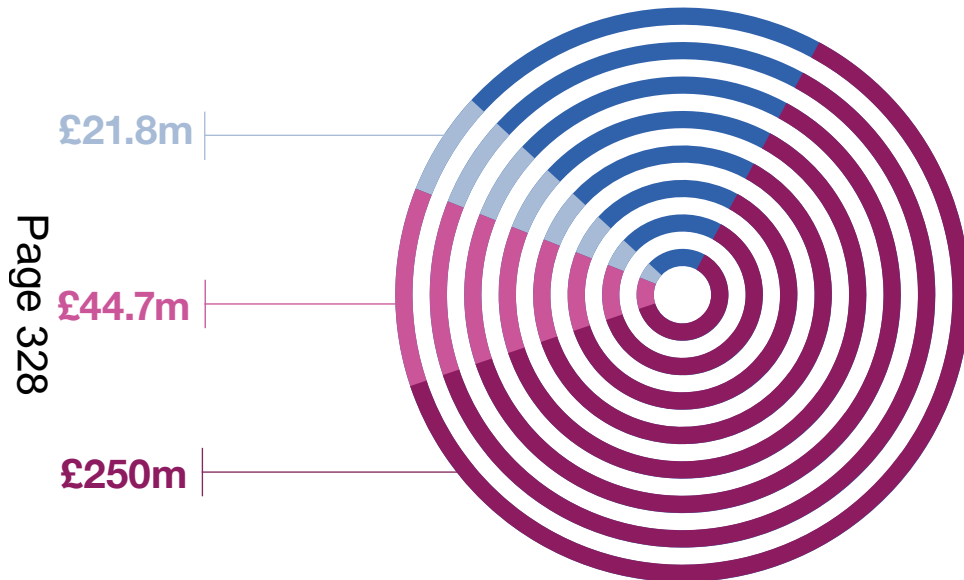
### Cumulative NFI outcomes from 1996/97 to 2020/21<sup>10</sup> = £2.4 billion



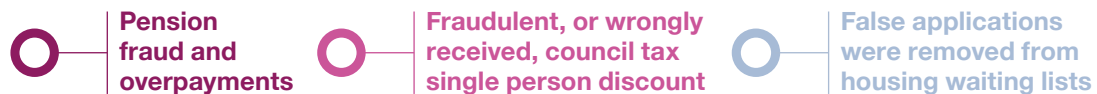
<sup>10</sup> This report captures outcomes recorded against 2020/21 matches (released in January 2021) up until 31st March 2022. Outcomes recorded against 2020/21 matches after 31st March 2022 will be reported in 2024.

## Results in England for 2020 - 2022

The results in England<sup>11</sup> for 2020 - 2022 total: **£416.8 million**



The main categories of fraud identified by the NFI in England relate to:



The £416.8 million also includes a number of pilot matches totalling **£39.7 million<sup>13</sup>**. More details about pilots can be found on page 34.

The exercise produced the following significant results in England:



**225,710**

Concessionary travel passes were cancelled as the pass holder was deceased



**42,393**

Blue badges were cancelled as the badge holder was deceased

**32,669**

Incorrect claims for council tax single person discount



**6,736**

False applications were removed from housing waiting lists



**3,000**

Cases where Council Tax reduction had been claimed incorrectly



**1,648**

Cases where housing benefit had been claimed fraudulently or incorrectly

**68<sup>12</sup>**

Cases where payments to a care home had continued after the death of the resident



**25**

Social housing properties were recovered as a result of illegal subletting or succession



<sup>11</sup> Scotland, Wales and Northern Ireland publish their own NFI results and are available at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk), [www.wao.gov.uk](http://www.wao.gov.uk) and [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk)

<sup>12</sup> These are cases reported late from NFI 2018/19 matches, i.e. after 4 April 2020. Due to a legislative change, the NFI stopped processing patient data in 2020

<sup>13</sup> This figure excludes HMRC and FraudHub outcomes as they are attributed to existing datasets e.g. CTSPD

## Recovery rates in England

Once overpayments have been identified, public bodies can take appropriate action to recover the money.

In this reporting period, public bodies had taken action to recover **85%** of total frauds detected from NFI matches (Table 1).

This is a significant achievement when considering the economic and social climate during the reporting period to March 2022, and is only slightly lower than the equivalent period to the end of March 2020 (89%).

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Table 1 - Recovery rates in England from NFI data matches (rounded)

Dataset	Fraud detected (actual not estimated) £ million	Amount in recovery £ million	Recovery rate %
Housing Benefit	11.2	9.8	87%
Council Tax Single Person Discount	17.2	16.3	95%
Pensions	9.3	8.3	89%
Creditor Payments	6.1	5.9	98%
Council Tax Reduction	3.7	3.3	88%
Residential Care Homes <sup>14</sup>	0.3	0.3	100%
Other	0.4	0.4	93%
Payroll	0.2	0.1	68%
Pilots (excluding HMRC pilot)	6.9	2.3	33%
Procurement	0.8	0.8	100%
<b>Total</b>	<b>56.2</b>	<b>47.5</b>	<b>85%</b>

<sup>14</sup> These are cases reported late from NFI 2018/19 matches, i.e. after 4 April 2020. Due to a legislative change, the NFI stopped processing patient data in 2020.

# Impact of fraud detected and recovered for public finances 2020-2022

**£416.8m**

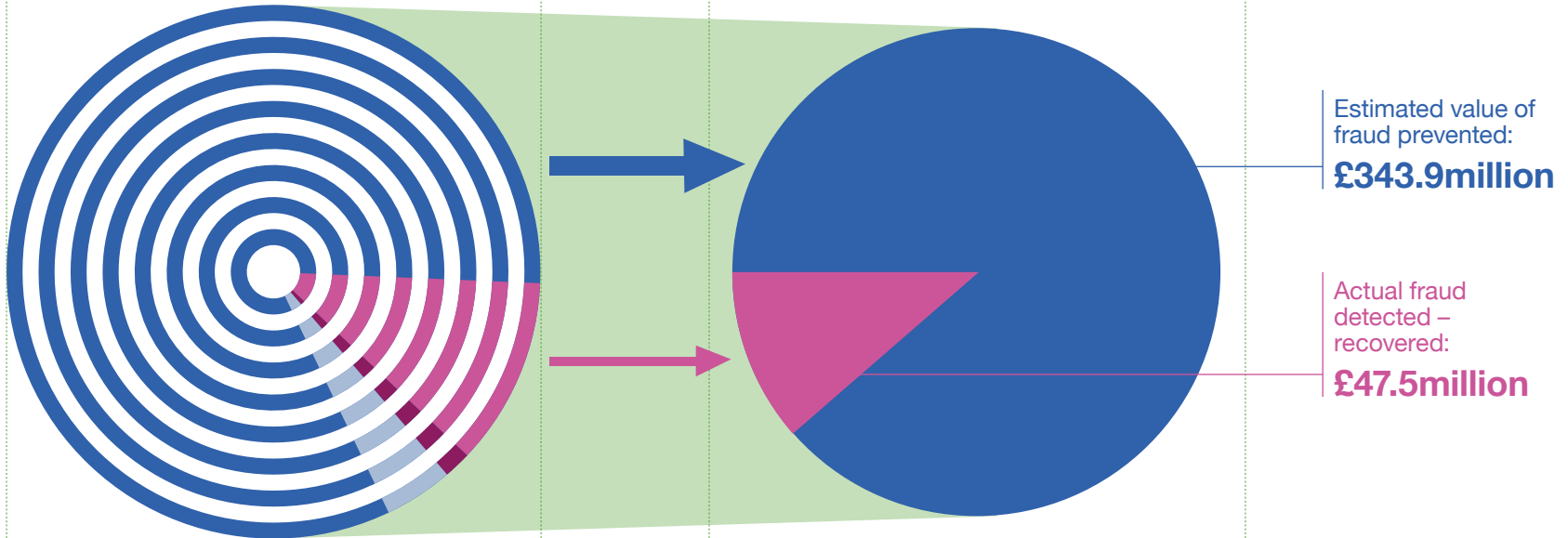
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the total amount of fraud, overpayments and error identified and prevented by NFI participants in England during the period 5th April 2020 to 31st March 2022.

**£391.4m**

=

total losses recovered and prevented



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Estimated value of fraud DETECTED = £16.7m

Estimated value of fraud PREVENTED = £343.9m

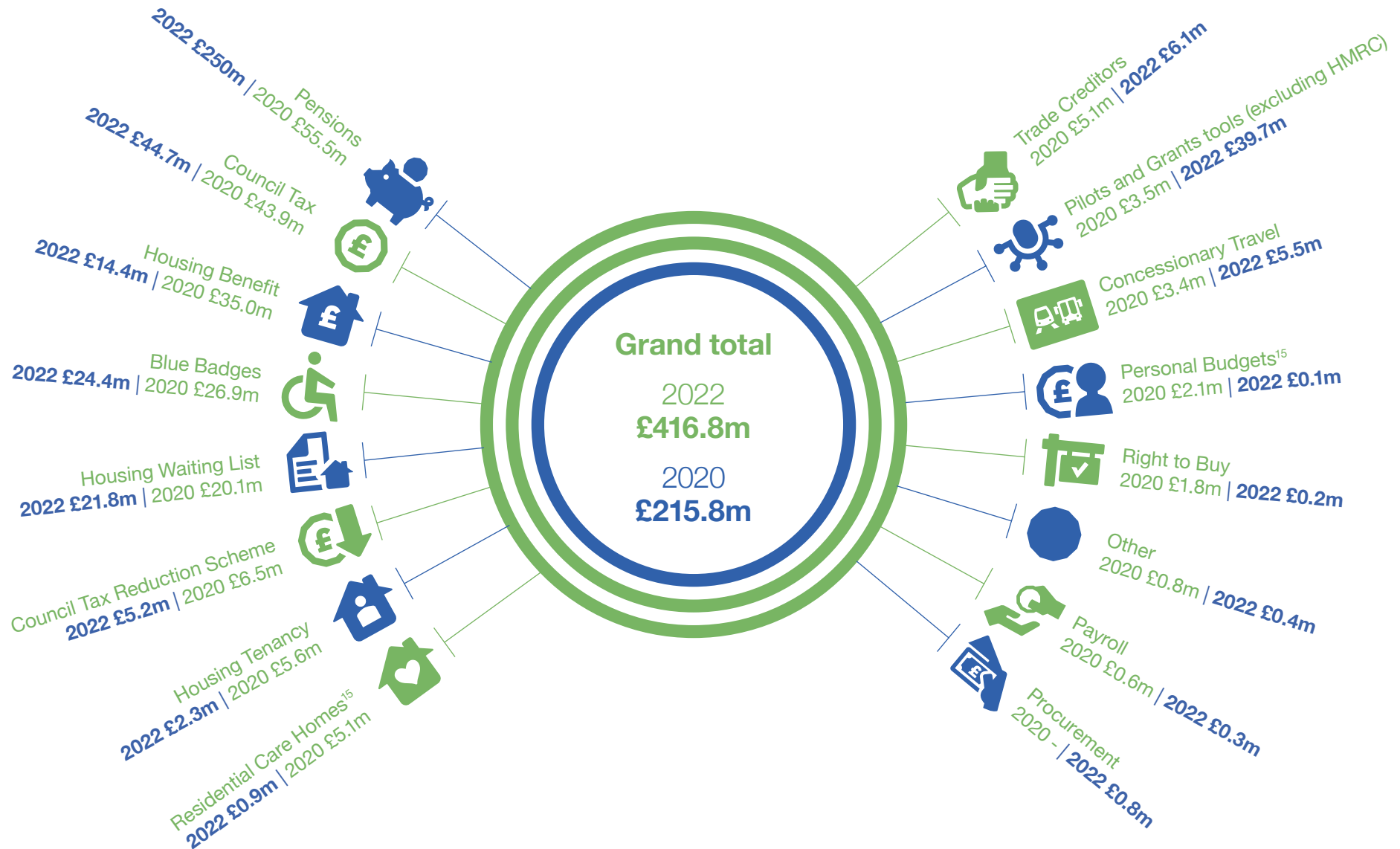
Actual fraud detected NOT RECOVERED = £8.7m

Actual fraud detected RECOVERED = £47.5m

**=£391.4m**  
 or 94%  
 as percentage of  
**£416.8million**  
 outcomes



## Outcomes in England by risk area (rounded)



<sup>15</sup> These are cases reported late from NFI 2018/19 matches, i.e. after 4 April 2020. Due to a legislative change, the NFI stopped processing patient data in 2020

## Main categories of fraud for 2020 to 2022 by dataset

This section sets out the results of the NFI in England<sup>16</sup> across the main categories of fraud, as set out on page 13.

**Pensions: £250 million**



*Individuals obtaining pension payments relating to a deceased person (known as mortality screening) and incorrect claims for injury benefit and pension abatements.*

Office for National Statistics data<sup>17</sup> finds that the membership of occupational pension schemes (active, deferred and pensioners) was 43.2 million in Q3 of 2021, split between the private sector (36.2 million) and the public sector (7 million). This represents an increase of 8.3% on equivalent Q3 2019 figures (39.9 million). By comparison, the NFI receives around 6.6 million occupational pension records for matching, around 15% of total occupational scheme membership.

The number of deaths in England over the past 5 years ranged from 498,664 in 2017 to 548,815 in 2021. The year on year percentage change in deaths reached 17% between 2019 and 2020 during the peak of the COVID-19 pandemic, when 575,407 deaths were recorded. Deaths decreased again in 2021, but remained significantly higher than pre-2020 levels. The population during this period increased by only 1% and remained fairly consistent<sup>18</sup>.

The majority of this increased amount can be attributed to work with one large public sector scheme to secure a breakdown of overpayments relating to investigations from 2018/19 and 2020/21. This equates to £205.1 million (7,255 cases) being reported in 2020/21 (Table 2), 64.9% of which related to pensioners that were aged 85 or over, 20.7% were aged between 84 and 70 and 14.4% aged under 70.

Table 2 - Analysis of outcomes from 2018/19 and 2020/21 reported by the large pension scheme (rounded)

	Number of cases	Actual overpayments (£ millions)	Estimated value of future losses prevented <sup>19</sup> (£ millions)	Total (£ millions)
2018/19	5,180	3.7	150.8	154.5
2020/21	2,075	0.9	49.7	50.6
<b>Total</b>	<b>7,255</b>	<b>4.6</b>	<b>200.5</b>	<b>205.1</b>

There was an increase in the number and value of pension cases from £55.5 million in 2018/19 to £250 million in this reporting period. Of the £250 million, £248.3 million related to mortality screening matches, as reported by 86 participants. Furthermore, three large public sector pension schemes that take part in the NFI on a voluntary basis contributed £225.3 million of the £248.3 million across 10,476 cases.

<sup>16</sup> The NFI results in Scotland are available at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk), in Wales at [www.wao.gov.uk](http://www.wao.gov.uk), and in Northern Ireland at [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk)

<sup>17</sup> ONS, [Dataset Funded occupational pension schemes in the UK](#), March 2022

<sup>18</sup> ONS, [Monthly mortality analysis, England and Wales: February 2022](#), February 2022

<sup>19</sup> The NFI estimate for future losses prevented is based on the annual pension multiplied by the number of years until the pensioner would have reached the age of 85

## Main categories of fraud for 2020 to 2022 by dataset

 Pensions: **£250 million**

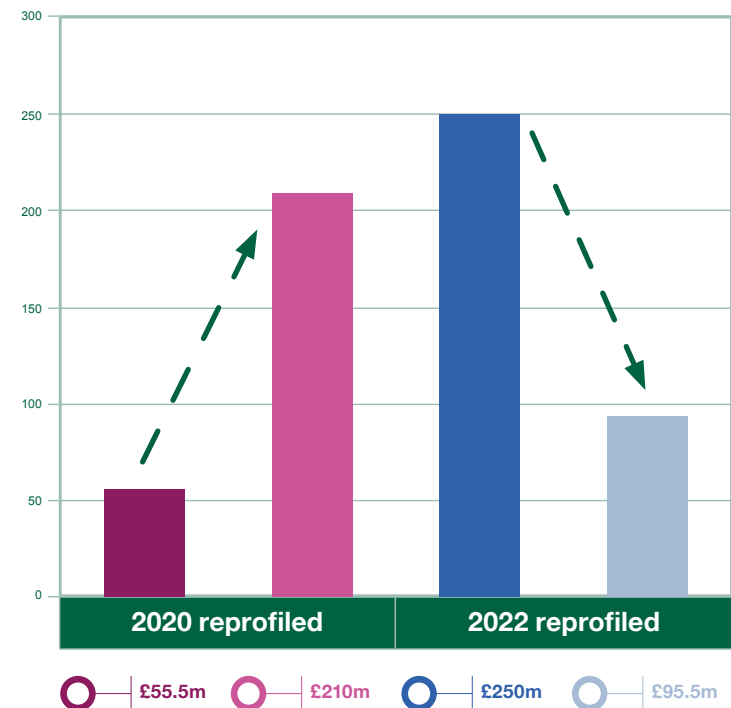


The uncertainty of voluntary participation makes it difficult to compare outcomes across NFI exercises as they are dependent on whether the participant wishes to submit data for just the national exercise or for the additional screening twice each year. The introduction of an automated method of recording outcomes for mortality screening matches has also simplified the process for large schemes which could have impacted on the increase in the number of cases recorded.

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Although it is normal for some investigations to cross reporting years, with this being such a large scheme, Figure 1 demonstrates the effect this would have had in 2020 and 2022, had the cases been reported in the correct years. From January 2022, this pension scheme has been undertaking bespoke monthly screening, which will alert them to deaths earlier, supporting them in reducing the amounts overpaid. If successful, we may look to make this tool available more widely in future.

The average outcomes per case remains consistent with 2018/19 at around £20,000 per case: (Table 3).

Figure 1 - Pension outcomes reprofiled to show the effect of 2018/19 outcomes reported late



<sup>19</sup> The NFI estimate for future losses prevented is based on the annual pension multiplied by the number of years until the pensioner would have reached the age of 85

## Main categories of fraud for 2020 to 2022 by dataset

 Pensions: **£250 million**



Table 3 - Comparison of total pension overpayments between 2014/15 and 2020/21

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	2014/15	2016/17	2018/19	2020/21
<b>Number of cases</b>	3,592	3,763	2,876	12,098
<b>£ millions</b>	85.1	136.9	55.5	250
<b>Average outcome per case</b>	<b>£23,692</b>	<b>£36,381<sup>20</sup></b>	<b>£19,289</b>	<b>£20,661</b>

### Pension overpayment dating back to 2016

The London Borough of Brent reviewed 92 pension matches where an NFI match indicated the pensioner had died. In eight of these cases they were not aware of the death, including a case going back to 2016. Payments were stopped and recovery of overpayments totalling over £32,000 is in progress.



<sup>20</sup> Some large pension schemes had a backlog of investigations in 2014/15 that came through in 2016/17



## Main categories of fraud for 2020 to 2022 by dataset

 Pensions: **£250 million**



### NHS Business Services Authority

The NHS Business Services Authority prioritises identifying and preventing fraud in the services that we administer. Taking part in regular exercises with the NFI provides us with assurance that any potential overpayments in the NHS Pension Scheme created through fraud, or a late notification of death, are identified at the earliest opportunity, allowing us to take the necessary actions to prevent additional overpayments from occurring. The recent addition of a Bulk Outcomes function, allowing us to quickly and easily update matches to member records in one import rather than individually closing each match, has been extremely beneficial, and resulted in a significant reduction in processing times. For an organisation which routinely deals with 1,000's of matches a year, this has been a much-welcomed improvement, and I have found the NFI team to be both engaging and receptive to feedback in the roll out of this new feature.

**A spokesperson from the NHS Business Services Authority**

### London Fire Brigade pension reduced going back 24 years

A match between injury benefit payments to pension data identified a case for London Fire Brigade where the Department for Work and Pension had been paying an injury benefit that had been paid to one of their pensioners since 2019. Pensioners are required to declare relevant state benefits (industrial injuries disablement benefit, incapacity benefit, employment and support allowance) that may remove or reduce entitlement to the enhanced pension. This particular injury payment award in 2019 had been backdated for 24 years and upon review of this information an overpayment of pension in excess of £35,000 was identified along with a reduction in the pensioner's ongoing entitlement.

## Main categories of fraud for 2020 to 2022 by dataset

 Council Tax: **£44.7 million**



*Individuals falsely declaring they live alone or who fail to notify when a second adult moves into the property. Therefore, they do not qualify for the Council Tax Single Person Discount they have claimed.*

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According to the Valuation Office Agency Valuation List, as at 14 September 2020, there were 24.8 million dwellings in England, an increase of 0.9% since 9 September 2019. Of these, 24.1 million were liable for Council Tax and 8.0 million were entitled to a discount as a result of being occupied by a single adult. This represents 32.2% of all dwellings<sup>21</sup>.

Across the UK, the CIPFA 2020 Fraud and Corruption Tracker<sup>22</sup> concludes that Council tax Single Person Discount (SPD) is the second fastest growing fraud area for local authorities after housing fraud. Between 2018/19 and 2019/20, there was an estimated £9.6m increase in Council Tax SPD fraud, leading to an estimated £29 million for cases detected/prevented in 2019/20. While the estimated value increased, the number of cases decreased by 45%, raising the average case value from £440 to £1,205.



The annual NFI match between Council Tax and Electoral Register data to tackle Council Tax SPD abuse has once again provided substantial returns for councils. Outcomes from the 2020/21 and 2021/22 exercises are £44.7 million (32,669 SPDs cancelled) compared to £43.9 million reported for the 2018/19 and 2019/20 (37,000 SPDs cancelled). This suggests that the average cost per case has increased by 15.4% (Table 4).

Figure 2 sets out how the total outcomes are made up over the various match types.

Table 4 - Comparison of Council Tax Single Person Discount outcomes

Period (April-March)	Volume	£ million	Average per case	
2020-2022	32,669	44.7	£1,368	<b>15.4% increase</b>
2018-2020	37,00	43.9	£1,186	

<sup>21</sup> Ministry of Communities and [Local Government, Local Authority Council Tax base England 2020 \(Revised\)](#), 1 March 2021

<sup>22</sup> CIPFA, [Fraud and Corruption Tracker 2020](#)

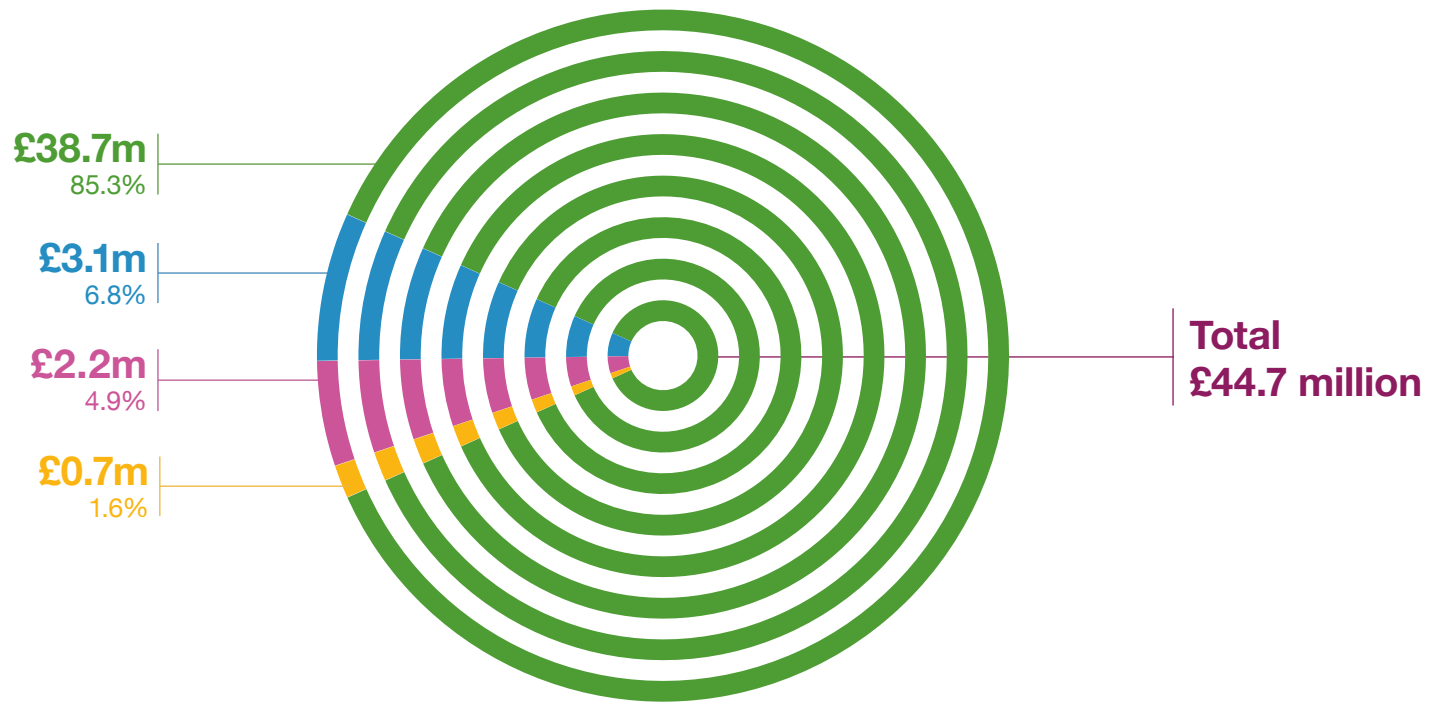
# Main categories of fraud for 2020 to 2022 by dataset

Council Tax: £44.7 million



Figure 2 - Analysis of Council Tax outcomes by report area

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 Council Tax to Electoral Register

 Premium SPD

 Council Tax Rising 18s

 Council Tax to Other NFI Data

## Main categories of fraud for 2020 to 2022 by dataset

 Council Tax: **£44.7 million**



Phase two of the HMRC information sharing pilot generated £0.9 million in additional overpayments from matches that provided information on individuals residing at an address. This has fallen due to unexpected challenges and delays with this workstream<sup>23</sup>. Further savings are expected to be realised in the next reporting period. We continue to seek to evaluate additional data sources that can further identify additional undeclared individuals in a household. The proposed tenancy pilot may assist with this aim. Further information about this tenancy pilot can be found on page 41.

The optional enhanced Council Tax SPD service that combines both public and private sector credit reference agency data has also achieved good results identifying £3.1 million overpayments by the 25 councils that utilised it. This service is available in addition to the mandatory annual matching and is charged for on a per record basis.

### Effective use of the NFI Premium Service

Enfield Council has more than 120,000 Council Tax accounts. Nearly a third of these households claim a single person's discount. Enfield Council has recently established a specialised team to proactively review their SPD and disregard claims. Assisted by the Counter Fraud Team, the CT Review Team has utilised the Premium SPD Service which identified 1,300 high-risk cases.

With the help of the NFI service data and the investigation of the 1,300 high risk cases identified by the Council Tax Review team, we have increased income due by an estimated £284,000. The estimated saving has been calculated as follows: 618 households where SPD is no longer valid x £1,841 x 25% discount (£1,841 being the average Council Tax Band D charge).

### Torbay Rising 18s

Torbay Council, like many other councils, prioritised reviewing the 'Rising 18s' report to identify fraud and ensure customers receive the correct benefits and allowances. An additional adult in a household can have an effect on household finances. Where a single adult has been claiming Council Tax Single Person Discount, this would be withdrawn as a child reaches 18. A change to Housing Benefit and/or Council Tax Reduction Scheme is possible as a non-dependant deduction can be made to entitlement. There are also circumstances where the charge payer advises that the 18-year-old has vacated and that could result in changes for another household.

<sup>23</sup> HMRC Council Tax household composition matches were released in November 2021

## Main categories of fraud for 2020 to 2022 by dataset

Blue Badges: **£24.4 million**



*Potential misuse of blue badge parking passes belonging to someone who had died. This may be continued use of the pass by relatives of the deceased, forgery of a pass in the name of a deceased person, or use of a stolen badge.*

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As at 31st March 2021, there were 2.35 million Blue Badges held in England according to Department for Transport statistics<sup>24</sup>. There were 698 prosecutions for misuse of Blue Badges between 1st April 2020 and 31st March 2021, a decrease of 49% since March 2020. The majority of prosecutions (97%) in England were still targeted at non-badge holders using another person's badge. The drop in prosecutions may relate to the effects of the pandemic on behaviour, local authority enforcement practices, and availability of resources such as the courts.

During this reporting period, the number of blue badges cancelled decreased to 42,393 from 46,750 in 2018/19. The estimated value of blue badges cancelled therefore decreased by 9.3% from £26.9 million to £24.4 million. The number of local authorities that recorded outcomes had however increased by 24.8% (Table 5).

The decrease is likely due, as with many areas across the NFI 2020/21 exercise, to the impact of the reprioritisation of work within local authorities' during the pandemic. Many local authority employees were required to support front-facing services as part of the COVID-19 response. For a long period of time there was also a halt to non-essential travel.

Following the redeployment of staff back to their original posts, investigation of NFI matches has re-commenced and passes are now being recorded as having been cancelled. These will be reported on in 2024.

With systems being updated, the data extracted for the forthcoming NFI 2022/23 exercise will be more accurate, helping to ensure the matches returned relate to unknown deaths.

Table 5 - Analysis of the number of passes cancelled by participants

Year	Number of cases	Number of bodies
2018	31,223	90
2020	46,750	109
2022	42,393	132

<sup>24</sup> Department for Transport, [Blue Badge Statistics, England: 2021](#), 25 January 2022

## Main categories of fraud for 2020 to 2022 by dataset

 Housing Waiting List: **£21.8 million**



*Social housing waiting list applicants who were not entitled to social housing because they had misrepresented their circumstances.*

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The most recent Department for Levelling Up, Housing and Communities housing statistics<sup>25</sup> show that as at the end of March 2021, there were 1.2 million households on social housing waiting lists in England - similar levels to 2020. Removing applicants who are not eligible will help enable councils to allocate social housing to those in genuine need.

The CIPFA Fraud and Corruption Tracker 2020<sup>26</sup> reported that the largest growing fraud area across the housing sector was 'other tenancy frauds' including succession and false applications. An estimated £60.1 million is thought to have been lost in 2019/20 compared to £47.7m in 2018/19.

Housing waiting list matching has resulted in 6,736 ineligible applications for social housing having been removed. These applications were removed by 102 councils, 7.8% more councils (94 councils) than in 2018/19, which led to the increase overall. Applying the Cabinet Office fraud or loss prevented estimate of £3,240<sup>27</sup> per property, this equates to £21.8 million for 2020/21 compared to £20.1 million for 2018/19.



<sup>25</sup> Department of Levelling Up, Housing and Communities, [Table 600: numbers of households on local authorities' housing waiting lists, by district, England, from 1997](#), 27 January 2022

<sup>26</sup> CIPFA, [Fraud and Corruption Tracker 2020](#)

<sup>27</sup> See 'Report calculation methodology 2020 to 2022 - England' on page 48 for more details about the NFI estimate methodology

## Main categories of fraud for 2020 to 2022 by dataset

 Housing Benefit: **£14.5 million**



*Individuals claiming housing benefit who failed to declare an income or a change of circumstances.*



In May 2021 the Department for Work and Pensions (DWP) reported that out of the £17.3 billion in Housing Benefit (HB) expenditure, there was a 6% overpayment rate due to fraud and error (£1 billion)<sup>28</sup>. This compares to 6.3% (£1.3 billion) in 2018/19.

Of the £1 billion, £0.5 billion of HB overpayments were recovered. The DWP reports the main cause of overpayments on HB is incorrect information about earnings and employment.

In April 2013, the DWP introduced Universal Credit to replace six existing benefits, one of which was HB. Therefore, the number of people receiving HB has decreased from 5.1 million<sup>29</sup> in February 2013 to 2.7 million claimants in February 2022. In contrast there were 4.7 million people on Universal Credit in February 2022<sup>30</sup>.

Housing Benefit outcomes are £14.5 million, compared with £35 million in 2018/19. These outcomes were recorded by local councils and the DWP.

This decrease in outcomes of 58.6% is likely attributable to:

-  the redeployment of DWP staff during the pandemic
-  the significant movement of caseload from Housing Benefit to Universal Credit (UC) resulting in data volumes reducing by 24.4% between NFI 2018/19 and 2020/21

It is expected that the move to UC will continue to impact the level of outcomes from NFI HB matches. We will work closely with Local Authorities and the DWP to ensure we evaluate the benefits of the NFI HB matching, terminating this matching if appropriate. In the interim, we will seek to avoid duplication with the HB data matching undertaken by the DWP through the Verify Earning and Pensions Service (VEPS)<sup>31</sup>. An example being, HB to payroll and pensions matches were not released to local councils in 2020/21 as the DWP confirmed that this matching was undertaken on a regular basis through VEPS.

Table 6 shows how outcomes have been reported by local councils and the DWP between 2018 and 2022.

<sup>28</sup> DWP, [Fraud and error in the benefit system for financial year ending 2021](#), 13 May 2021

<sup>29</sup> DWP, [Housing Benefit caseload statistics](#), Table 1: Housing Benefit claimants by Region and Local Authority, May 2018

<sup>30</sup> DWP, [Universal Credit statistics, 29 April 2013 to 14 April 2022 - GOV.UK](#), May 2022

<sup>31</sup> The Verify Earning and Pensions service (VEPS) allows councils to verify earnings and pensions information from claimants using real-time information from Her Majesty's Revenue and Customs

## Main categories of fraud for 2020 to 2022 by dataset

 Housing Benefit: **£14.5 million**



Table 6 - Analysis of Housing Benefit overpayments by source (includes estimates)

		Outcomes from local councils	Outcomes from DWP	Total
2018	2014/15 reported after 31 March 2016	£14.0m	-	£14.0m
	Reported between 1 April 2018 and 31 March 2018	£8.0m	£3.0m	£11.0m
2020	2016/17 reported after 31 March 2018	£3.0m	£8.0m	£11.0m
	Reported between 1 April 2018 and 4 April 2020	£10.0m	£14.0m	£24.0m
2022	2018/19 reported after 31 March 2020	£3.0m	£3.1m	£6.1m
	Reported between 5 April 2020 and 31 March 2022	£6.7m	£1.6m	£8.3m

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HB overpayments identified through matching to student loans continue to represent a high proportion of overall HB outcomes. Excluding the cases referred to the DWP, local councils identified 962 cases linked to individuals in receipt of a student loan with an overpayment value of £6 million (excluding estimated forward savings). This represents 83.5% of the total £7.1 million HB overpayments recorded by councils. This is a significant shift from the previous reporting period (45% of £8.9 million) and is the possible consequence of the fact, as mentioned above, that housing benefit to payroll and pensions matches were not released to local councils.

### Overpayments to landlords that did not inform the council that the property was empty

Birmingham City Council identified two cases where a tenant appeared to be resident at a property within its boundaries and also at a property within another council's boundaries. In both cases the tenant and landlord had failed to notify Birmingham City Council that the property in Birmingham had been vacated resulting in the continuance of Benefit payments directly to the landlord. Overpayments of £13,600 and £12,000 are being recovered.

### Review of Housing Benefit to Student Loans matches revealed nearly £1m in overpayments

The London Borough of Barnet carried out a thorough review of 330 Housing Benefit to Student Loan cases and identified £942,000 of recoverable overpayments. Individuals were asked to provide full details of their undeclared student income and their Housing Benefit was reassessed. In many cases this meant the entitlement to Housing Benefit was reduced or withdrawn completely. In a number of cases overpayments were in excess of £40,000.



## Main categories of fraud for 2020 to 2022 by dataset

Trade Creditors (including Procurement): **£6.9 million**



**Trade creditors** - A range of reports that aim to either identify duplicate creditor reference numbers that increase the potential for suppliers to obscure fraudulent activity, or duplicate payments for the same goods/services, which may have arisen as a result of fraudulent activity by suppliers and/or staff.

**Procurement** - Employees that have potentially not declared interests in companies that have given a pecuniary advantage or employees who appear to be registered directors of companies that the employing body has traded with.

The NFI matches trade creditors' data to identify duplicate payments. In this reporting period, 955 duplicate payments of £6.1 million were identified, £6 million of which were recovered. This represents a 19.7% increase from the 2020 reported amount (£5.1 million). It is notable that the amount identified from 2018/19 cases investigated after April 2020, increased by £0.8 million compared to 2016/17 cases reviewed after April 2018 (Table 7).

Apart from the financial benefits, data matches help to improve the efficiency with which organisations maintain their creditor payment systems. A further 846 duplicate supplier standing data records have been corrected or deleted.

In the same period one significant procurement fraud case was found by a hospital trust. An outline of this case is set out below.

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On 8 June 2020, the Ministry of Housing, Communities and Local Government (now DLUHC) published a review into the risks of fraud and corruption in local government procurement<sup>32</sup>. This review highlighted that councils in England spend around £55 billion a year on goods, works and services. The review noted the importance of working together and building an anti-fraud and corruption culture in tackling fraud, including the need for effective data sharing and collaborative working across councils, law enforcement and central government.

HM Treasury reported<sup>33</sup> that health and social care procurement expenditure in England for 2019-20 was estimated to be £76 billion, an increase of £12 billion from 2018-19.

The NHS Counter Fraud Authority 2020/21 Annual Report<sup>34</sup> stated that of the £54.1 million identified through prevention and enforcement work, £1.9 million was from procurement prevention.

Table 7 - Analysis of trade creditor duplicate payments

	2020		2022	
	2016/17 reported in 2018/19	2018/19	2018/19 reported in 2020/21	2020/21
<b>Duplicate Payments</b>	£1.0m	£4.0m	£1.8m	£4.3m

<sup>32</sup> Ministry of Housing, Communities & Local Government, [Review into the risks of fraud and corruption in local government procurement](#), 8 June 2020

<sup>33</sup> This includes current and capital procurement spending. HM Treasury, [Public Expenditure Statistical Analyses 2019](#), 2019

<sup>34</sup> NHS Counter Fraud Authority, [NHSCFA Annual Report and Accounts 2020-2021](#), January 2022

## Main categories of fraud for 2020 to 2022 by dataset

○ Trade Creditors (including Procurement): **£6.9 million**



### Using trade creditors data to find procurement fraud

A Payroll to Companies House match identified an IT manager working for a hospital trust in Essex who was also a sole director of two companies.

The directorships had not been declared so an investigation by the Local Counter Fraud Specialist (RSM), NHS Counter Fraud Authority and HMRC followed. These investigations revealed that the employee had filed non-trading accounts for both companies during their existence. However, he then produced fraudulent invoices from the two companies all under his own £7,500 authorisation limit, sending them by email from fictitious employees, to obtain £674,000 from the trust. He even added VAT of £132,000 to make the invoices more plausible. A dismissal and prosecution followed and he was sentenced to five years and four months imprisonment. Confiscation proceedings are underway to try to recover the funds.

### A Clinical Commissioning Group (CCG) identifies three large duplicate trade creditor payments

The Counter Fraud Services provider for NHS Hammersmith & Fulham CCG was given access to the CCGs internal payments system, allowing them to thoroughly review the NFI trade creditor matches. As a result, three duplicate payments totalling £36,000 were identified. Recovery of these duplicate payments is in progress.

## Main categories of fraud for 2020 to 2022 by dataset

○ Concessionary Travel Passes: **£5.5 million**



*Potential misuse of concessionary travel passes belonging to someone who has died.*

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The English National Concessionary Travel Scheme is a national scheme by the Department for Transport for English residents who have attained pension age or are eligible disabled. This provides free off-peak bus travel on weekdays and all day at weekends and bank holidays. From 1 April 2008, the scheme extended the provision of free bus travel from within individual areas to allow travel throughout England. Concessionary travel is administered locally by Travel Concession Authorities (TCAs). Since 1 April 2011 County Councils, Unitary Authorities, Passenger Transport Executives and London Boroughs have been classified as TCAs. In London, residents aged 60 - 65 can obtain a 60 plus Oyster card. This allows free travel on bus, tube, tram, the DLR, London Overground, TfL Rail and most National Rail services.

In 2020/21, the Department for Transport reported there were 8.9 million older and disabled concessionary travel passes in circulation and that the net spend was £1.1 billion<sup>35</sup>. In total there were 272 million concessionary bus journeys in England in 2020/21. This was a 68.5% reduction from 2018/19.

The number of concessionary passes cancelled<sup>36</sup> in 2020/21 was 225,710 - an increase from 151,815 in 2018/19. The estimated value of fraud losses prevented in the same reporting period in turn increased from £3.4 million in 2018/19 to £5.5 million in 2020/21.

Around 15% of the total passes cancelled (33,951) were recorded by one voluntary participant. This participant submits data for the national matching exercise and intermittently for half-yearly screening. A further 39% of passes cancelled (136,827) were recorded by four Passenger Transport Executives<sup>37</sup>, who are mandatory participants. The remaining 46% were recorded by County Councils with responsibility for the administration of concessionary passes. Figure 3 shows the number of passes cancelled between 2012 and 2022. The fluctuations between reporting periods reflect the impact the voluntary body has when they use the NFI more frequently in some years and not others.



<sup>35</sup> Department for Transport, [Concessionary Travel Statistics 2020/21](#), 3 November 2021

<sup>36</sup> This includes passes that are updated, stopped or 'hot-listed' (a term used where a pass has been deactivated for a specific reason), in this case as the person is believed to be deceased

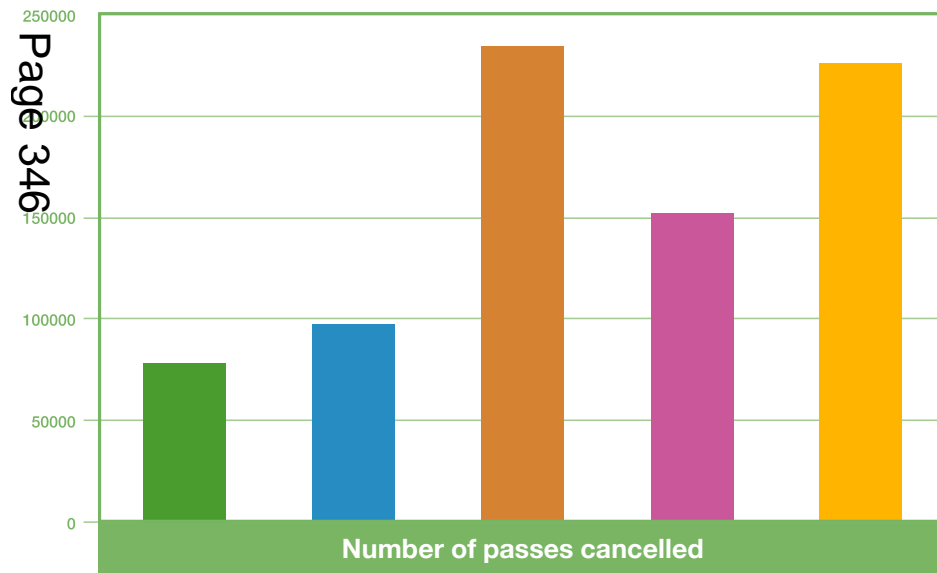
<sup>37</sup> Passenger Transport Executives (PTEs) are local government bodies which are responsible for public transport within large urban areas. They are accountable to Combined Authorities, which were created between 2011 and 2016 and took the role of Integrated Transport Authorities (ITAs)

## Main categories of fraud for 2020 to 2022 by dataset

○ Concessionary Travel Passes: **£5.5 million**



Figure 3 - Analysis of concessionary passes cancelled between 2012 and 2022



○ 2012/13 = **78,443**  
52.17% increase

○ 2014/15 = **97,064**  
23.7% increase

○ 2016/17 = **234,154**  
141.2% increase

○ 2018/19 = **151,815**  
35.2% decrease

○ 2020/21 = **225,710**  
48.7% increase

London Councils regularly take part in the National Fraud Initiative to ensure that fraud is identified in concessionary travel pass data and the Customer Management System is kept up to date in terms of the eligibility. As well as the national exercise, we provide data for additional matching to provide extra assurance. We work with the NFI team to make sure that data transfer and receipt of the resulting matches runs smoothly.

**Fatmira Hoxta, Principal Data Analyst, London Councils**

## Main categories of fraud for 2020 to 2022 by dataset

○ Council Tax Reduction: **£5.2 million**



*Individuals claiming Council Tax reduction who failed to declare an income or a change of circumstances.*

Since 1 April 2013, local authorities in England have been responsible for administering Council Tax Reduction Schemes (CTRS) in their own areas (also referred to as Council Tax Support)<sup>38</sup>. Some authorities chose to adopt the default scheme<sup>39</sup>.

Under the regulations liability for Council Tax can be reduced by applying a discount:

- worked out as a percentage of a Council Tax bill;
- of a set amount, as set out in the local scheme; or
- equal to the whole amount of the Council Tax bill - so that the amount payable is nil.

The government provided an additional grant of £670 million<sup>40</sup> in May 2021 in recognition of the anticipated additional cost of providing CTRS in 2021/22, at a time when more households were likely to be facing financial difficulties as a result of the pandemic. This was in addition to the £71 million Local Council Tax Support Administration Subsidy Grant for 2021/22<sup>41</sup> (£66 million in 2019/20<sup>42</sup>).

In 2020/21 the number of Council Tax reduction claimants increased for the first time since 2013/14, in part because of the financial hardship caused by COVID-19.

Outcomes from Council Tax reduction matching have decreased from £6.5 million in 2018/19 to £5.2 million in 2020/21 across 3,000 cases (2,688 cases in 2018/19). Despite an increase in the number of cases the average reported saving per case has decreased to £1,247 (excluding estimated forward savings), compared to £1,578 in 2018/19.

Our research indicates that the reduction in outcomes, excluding those from HMRC data matches, is likely linked to the diversion of staff and resources usually dedicated to following up the NFI matches, to support front-facing services as part of the COVID-19 response.

Phase two<sup>43</sup> of the HMRC information sharing pilot identified £0.4 million overpayments of Council Tax reduction. This is lower than the £3.1 million from the initial pilot in 2018/19 due to a delay in the release of the matches. We expect outcomes to continue to be reported throughout 2022.

<sup>38</sup> HM Government, [The Council Tax Reduction Schemes \(Prescribed Requirements\) \(England\) Regulations 2012](#), November 2012

<sup>39</sup> HM Government, [The Council Tax Reduction Schemes \(Default Scheme\) \(England\) Regulations 2012](#), December 2012

<sup>40</sup> Ministry of Housing, Communities and Local Government, [Letter: Local Council Tax Support Schemes grant for 2021-22](#), May 2021

<sup>41</sup> Ministry of Housing, Communities and Local Government, [Local Council Tax Support Administration Subsidy grant 2021-22](#), March 2021

<sup>42</sup> Ministry of Housing, Communities and Local Government, [Localised Council Tax Support Admin Subsidy Grant to Local Authorities](#), July 2019

<sup>43</sup> HMRC Council Tax reduction scheme property ownership, household composition, undeclared earnings and capital matches were released in October and December 2021

## Main categories of fraud for 2020 to 2022 by dataset

○ Council Tax Reduction: **£5.2 million**



### *Council tax reduction scheme match resulted in recovery of a council property*

A Council Tax Reduction Scheme (CTRS) match highlighted an individual who was claiming from both Sandwell Metropolitan Borough Council (MBC) and a neighbouring council.

As Sandwell MBC's Counter Fraud Unit takes a wider and holistic approach to potential fraud investigations, when looking into this case the individual was also found to be a tenant living in social housing provided by Sandwell MBC. Therefore, there appeared to be a linked tenancy fraud as after acquiring a tenancy in Sandwell, the individual had purported to be homeless to the neighbouring council. The neighbouring council subsequently temporarily housed them before awarding a tenancy.

As the Sandwell tenancy was still a non-secure status, the match allowed Sandwell to identify the fraud quickly enough to serve a Notice to Quit before the tenancy became secured. This resulted in a more cost-effective recovery process. Within six weeks of reviewing the match the fraud was identified, the tenancy was terminated and the property was recovered. The property has since been allocated to an individual who needed social housing.

The NFI match not only allowed the property to be allocated to someone in genuine need, but also resulted in the CTRS claim being cancelled and provided the council's Debt Recovery Officers with a forwarding address of the individual to pursue outstanding Council Tax of £500 and rent arrears of £2,500. The value of fraud detected and prevented for his case totals £96,000 including recovery of the property.



## Main categories of fraud for 2020 to 2022 by dataset

 Housing Tenancy: **£2.3 million**



*Social housing tenants who were subletting or had multiple tenancies unlawfully.*

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The CIPFA Fraud and Corruption Tracker 2020<sup>44</sup> reported that housing fraud detection, such as illegal subletting, has been in steady decline - from £55.8 million in 2017/18, £41.8 million 2018/19 to £31.6 million in 2019/20. However, social housing providers report that tenancy fraud is still a challenge with increases during COVID-19 in unlawful succession applications, tenants avoiding meetings with housing officers and delays in progressing cases to court<sup>45</sup>.

During COVID-19, measures were taken to protect tenants from being evicted<sup>46</sup> by extending the notice periods. This is further supported by the Mortgage and Landlord possession statistics for July to September 2021<sup>47</sup> that reported a reduction in the number of social landlord repossessions, to 21% of all claims (2,148) in Q3 2021. For the same quarter in 2019, 62% (17,629) of all landlord possession claims related to social landlords.

The 2020/21 tenancy matches resulted in 23 properties being recovered, a decrease of 58.9% from the 60 recovered in 2018/19. This reverses the previous trend of slight increases (2018/19 was 1.8% higher than 2016/17). This is believed to be due to the substantial reduction in the number of housing tenancy reviews and due diligence checks that were able to be carried out during the pandemic.

Although the numbers of properties recovered are lower, outcomes were still significant and each recovered property can be reallocated to those in genuine need. The NFI will continue to seek ways to help councils fight social housing fraud, such as through repeating the HMRC information sharing pilot (see page 36 for more details) and working with local councils on ways to secure a wider range of data sources.

<sup>44</sup> CIPFA, [Fraud and Corruption Tracker 2020](#)

<sup>45</sup> Network homes, [BLOG: Tackling social housing fraud | Network Homes](#), December 2021

<sup>46</sup> A section 21 notice under the Housing Acts of [1988](#) and [1996](#)

<sup>47</sup> Ministry of Justice, [Mortgage and landlord possession statistics: July to September 2021 - GOV.UK](#), 11 November 2021

## Other case studies

### Payroll - two full time jobs and unfit for work

A payroll match identified an employee who had joined Birmingham City Council but also held a casual role as bank staff at a local NHS Trust. The match highlighted that the salary for the casual role was higher than expected. Initial enquiries established that the employee was working full-time for both organisations. An investigation found that both roles were being undertaken whilst working at home, allowing the fraudulent claims to be made. It also identified a period where the individual had worked for one organisation whilst claiming to be unfit for work at the other. The employee was dismissed from both organisations. Recovery of the salary paid by the council, in excess of £16,500, is being pursued.

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### Payroll - two full time jobs

Another payroll match identified an individual who appeared to be employed by two different local authorities, both on a full-time basis. In this case, the investigation identified that the individual was actually employed by the two local authorities. Although the hours of work did not overlap, one job was Monday to Friday 9am to 5pm, the other was to provide night and weekend cover. The individual had not declared to either employer that they had also taken up the other employment, as required by declaration policies. Authority A's declaration policy requires employees to seek permission to undertake any other role alongside their 'main' job with the council. The two jobs were not compatible and the request would not have been approved. The individual resigned. Authority B issued a final written warning.

### Payroll - new starter failed to accept post but got paid

A county council is in the process of recovering a £30,000 overpayment of salary after the NFI identified an individual who appeared to be employed by two different local authorities, both on a full-time basis. The investigation established that the individual had applied and been offered a job at one authority, however they did not accept or start employment. Despite this, they were set up on the payroll and monthly payments were made. The individual did not query the payments. This was not picked up by internal controls due in part to the fact that the role was in a team managed by the NHS but funded by the council.



## Matches benefitting other public sector participants

The main benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across local and national borders.

Many of the public bodies that participate will benefit directly from submitting data to the NFI and investigating the resulting data matches. Others may not benefit to the same extent or in the same ways, but the data they provide may still deliver significant outcomes on a wider local or national scale. For example, NHS bodies receive matches from the payroll data they provide, but this data is matched to all of the payroll data submitted and this may result in the recovery of an overpayment or salary linked to a dismissal or resignation at a council.

In this reporting period, public bodies, both within and outside England<sup>48</sup> were able to take action on 5,962 cases, with actual overpayments of £17 million<sup>49</sup> (Table 8) as a result of receiving matches relating to other NFI participants. Despite there being a decrease in the number of cases between 2020 and 2022, there was an 18.9% increase in actual outcomes. Most of these outcomes are from cross-body housing benefits, council tax reduction and pension matches.



Table 8 - Analysis of UK outcomes arising from data provided by participants within and outside of England

	2022 Cases	2022 Actual Outcomes	2020 Cases	2020 Actual Outcomes
Local Government	3,598	£8.3m	5,456	£8.0m
Central Government	1,829	£6.1m	3,265	£5.1m
NHS	513	£2.6m	468	£0.6m
Other	22		181	£0.6m
<b>Total</b>	<b>5,962</b>	<b>£17.0m</b>	<b>9,370</b>	<b>£14.3m</b>

<sup>48</sup> The NFI results in Scotland are available at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in Wales at [www.wao.gov.uk](http://www.wao.gov.uk) and in Northern Ireland at [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk)

<sup>49</sup> This is based on 2020/21 actual overpayments only, excluding outcomes recorded at report level and excluding estimates of fraud prevented

## The NFI pilots, 2020 - 2022 innovation programme and future plans

Using technology at the core, the NFI has always sought to evolve to ensure that an enhanced use of data saves taxpayer money and creates efficiencies where they are needed most. This has been central to the NFI providing a vital service for so many organisations over the last 25 years. Over the last two years, the scale and speed of NFI innovation has increased significantly. This is as a result of two factors:

- Additional funding
- Response to new fraud risks and challenges arising out of the government Covid-19 support schemes

Additional funding has enabled the NFI to create a specific team to deliver projects outside of the NFI mandated exercise, with a focus on innovation. This has allowed the NFI to prioritise concept testing through data matching pilots, exploring and designing non-mandated tools and working with the private sector to reduce fraud risks, by providing a gateway to NFI data.

Over the last two years, the NFI has initiated a comprehensive innovation programme. This has included a review of risk scoring, improved management information, carrying out user engagement to provide input into the modernisation of the user interface and work toward extending AppCheck to help target procurement fraud. This programme of work will help us in better understand how additional datasets can target fraud.

The section below outlines the NFI's pilots and innovation work. It also sets out the NFI's plans for the next two years.

### STRATEGIC OBJECTIVE

Increasing both the volume and frequency of data that is used in, or accessed through, the NFI.

### COVID-19 work

During the 2020 - 2022 reporting period, councils had to play a vital role in the COVID-19 response, supporting the management and distribution of significant volumes of COVID-19 business support grants. In response to this, the NFI mandated the provision of COVID-19 grants data from councils as part of the NFI 2020/21 work programme. This allowed a data matching pilot to be undertaken that aimed to flag potential fraud where companies received multiple grants or where fraudsters impersonated genuine businesses in order to access grants. The NFI worked closely with the Department for Business, Energy and Industrial Strategy (BEIS), local councils and the National Anti-Fraud Network (NAFN) to progress the pilot and the follow-up of matches. We quickly shared data on known attempts to defraud the system by matching fraud watchlist data maintained by NAFN and BEIS to the wider grants data submitted to the NFI by local councils.

To assist with fraud prevention, the NFI worked with the credit reporting company Experian to secure access to key private sector data, launching a new and innovative tool to help councils verify bank accounts and determine the active status of a company. This unique tool allowed organisations to specify the date at which checks are undertaken, thereby making it applicable for a range of emergency funding packages from several government departments, each with varying dates of eligibility.

## The NFI pilots, 2020 - 2022 innovation programme and future plans

Matching data from the initial business support grants identified £7 million overpayments in England. £2.2 million of this has been recovered up to the end of March 2022 (Figure 4). The tool has since been used elsewhere in government and has been integrated into established government grant due diligence checks. The future role of these checks within the NFI services will be evaluated.

Additional grant data was collected in quarter four of 2021/22 and this will be used to identify further potential fraud.

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 Figure 4 - Analysis of fraud detected/prevented and recovered from the Duplicate Grants and Impersonation fraud and Bank Account Verification and Active Company Status tools - England UK

### Duplicate claims for small business grants

Tameside Metropolitan Borough Council received a match that showed that they had paid a Small Business Grant Fund (SBGF) grant to a business that had also received a SBGF grant from another council. The match identified that the bank account where the grants had been paid was the same. Subsequent investigation established that the business had at least four other locations and the size of the business meant that there was no entitlement to a SBGF grant. The business had also been in receipt of Small Business Rate Relief (SBRR) since 2017. SBRR is designed for small businesses that only use one property. The entitlement to the SBGF grant and SBRR were removed and over £40,000 will be reclaimed from the business.

Duplicate Grants  
and Impersonation fraud



**£2.1 million**  
Fraud detected/prevented  
**£1.7 million**  
Overpayments recovered

Bank Account Verification  
and Active Company Status



**£4.9 million**  
Fraud detected/prevented  
**£0.5 million**  
Overpayments recovered

**Total Fraud detected/prevented £7 million**  
**Total recovered £2.2 million**



## The NFI pilots, 2020 - 2022 innovation programme and future plans

### HMRC information sharing pilot

The initial information sharing pilot with HMRC from spring 2019 onwards, successfully identified £8.8 million in outcomes as reported in our previous NFI National Report. Following on from that, we commenced our second pilot using HMRC data and continued to target the three fraud risks:

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Undeclared property ownership



Undeclared earnings & capital; and



Undeclared persons in a household

Phase 2 was expected to deliver outcomes in excess of Phase 1 due to the improved timing of the release and some changes to the matching logic. However, delays with the project meant that matches were released to councils later than expected (between October and December 2021). Reported outcomes total £3.5 million for the period 1st April 2020 to 31st March 2022 (Table 9). We expect outcomes to continue to accumulate throughout 2022/23 as reviews and investigations of potential fraud are progressed by local councils.

The four NFI datasets that produced the vast majority of the results are Council Tax Reduction, Council Tax SPD, Housing Benefit and Housing Tenancy.

Table 9 - Analysis of outcomes from the HMRC information sharing pilot - England (rounded)

Dataset	Number of Fraud and Error cases	Actual Outcomes (£m)	Estimated Outcomes (£m)	Total Outcomes (£m)	Amount under Recovery (£m)
Council Tax Reduction	481	1.5	0.4	1.9	1.8
Housing Benefit	44	0.2	-	0.2	0.2
Housing Tenancy	5	-	0.4	0.4	n/a
Council Tax SPD	817	0.3	0.6	0.9	0.3
Phase 1 outcomes reported after 31st March 2020 <sup>50</sup>	1	0.1	-	0.1	0.1
<b>Total</b>	<b>1,348</b>	<b>2.0</b>	<b>1.4</b>	<b>3.5</b>	<b>2.3</b>

The HMRC information sharing pilot will be evaluated internally over 2022, and the NFI will consider how HMRC data can best be used to help target fraud over 2022/23 and beyond.

<sup>50</sup> Matching to Residential Care Home and Right to Buy data was only undertaken in the initial pilot and was not repeated in the second pilot

## The NFI pilots, 2020 - 2022 innovation programme and future plans

### Working with the private sector to target fraud

Fraudsters target all kinds of organisations across the UK in both the public and private sectors. The NFI seeks to partner across all sectors, using data to help identify potential fraud. As part of this, the NFI has worked with a number of private sector bodies to facilitate use of NFI data to help them prevent and detect fraud. This has resulted in £33 million of fraud being prevented or detected (Figure 5). This includes highlighting where applicants for services misrepresent their identity, or their residency.

Car rental businesses, insurance companies and the water industry have utilised insights from the NFI data in this way and continue to make use of the data as part of their normal business processes. The way we interact with the private sector makes use of the latest technology to share data efficiently and proportionately.

We continue to explore the ways in which data held by the private sector can also further help to target fraud in the public sector, such as the housing tenancy pilot mentioned below.

### Economic Crime Plan 2019 - 2022

One of the Economic Crime Plan's<sup>51</sup> seven strategic priorities is to "pursue better sharing and usage of information to combat economic crime within and between the public and private sectors across all participants". The above mentioned work by the NFI is an example of improved data sharing between the private and public sectors to fight fraud, by providing real-time access to public sector data thus helping private sector bodies flag potential fraud at the point of application.

This is even more important when considering the Economic Crime Plan 'Statement of Progress' (April 2021) stated that the pandemic drove many fraudsters to quickly adapt by moving activity to online platforms.

Figure 5 - Analysis of losses prevented/detected through work with the private sector



<sup>51</sup> HM Treasury/Home Office, [Economic Crime Plan 2019 - 2022](#), 12 July 2019

## The NFI pilots, 2020 - 2022 innovation programme and future plans

### The NFI FraudHub - building new partnerships to target fraud

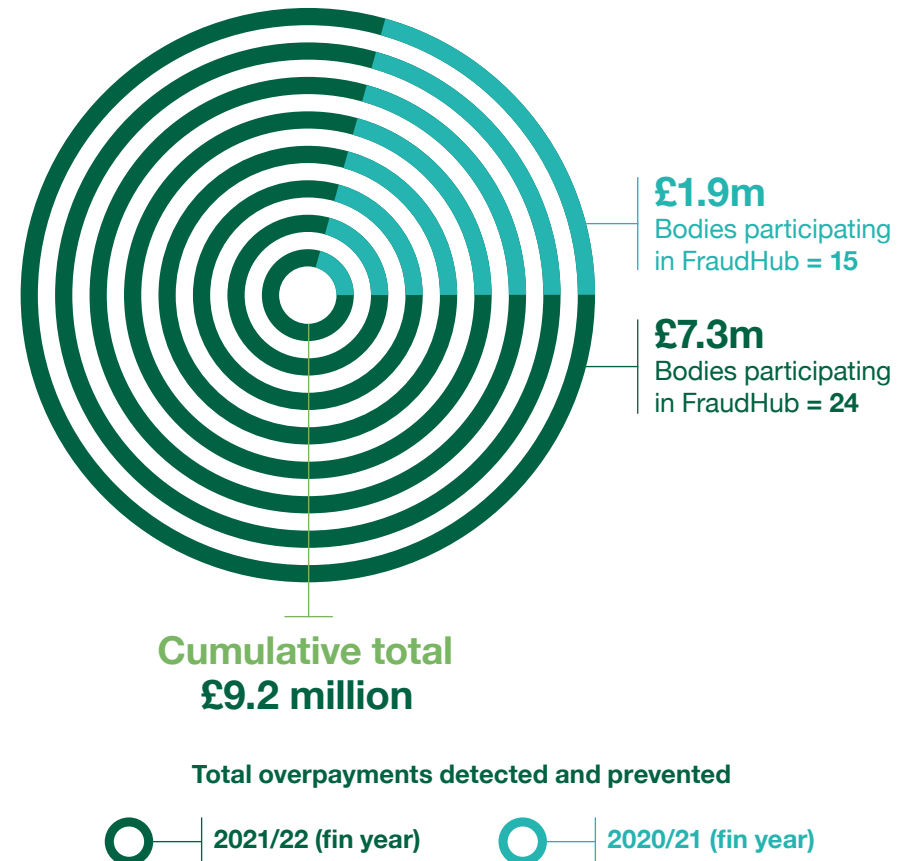
The NFI FraudHub provides local authorities and other public sector organisations with the opportunity to work together and share data in the existing secure NFI environment.

During 2021, the NFI FraudHub has seen significant growth, with new organisations joining existing hubs and new FraudHubs launching. As at 31st March 2022, 24 organisations had an active FraudHub membership. As at 30th September 2022, membership had grown to 35 organisations, with several others also about to join. Over the last year, the NFI has liaised closely with the London Borough Fraud Investigators Group (LBFIG) to increase membership from across London, with a view to establishing a London-wide FraudHub.

FraudHubs are already preventing and detecting fraud and error for their member organisations. As the new hubs establish themselves, outcomes are expected to continue to grow, as they work proactively to target specific fraud problems. We continue to promote the advantages of FraudHub across the UK and look forward to further expansion and continued participation in 2022/23 and beyond.

FraudHub outcomes were mainly in relation to pension mortality screening which for 2021/22 were £5 million of the £7.3 million reported (Figure 6). This is often the first fraud problem new FraudHub members target, due to the potential for significant results.

Figure 6 - Analysis of overpayments detected and losses prevented 2020-2022



## The NFI pilots, 2020 - 2022 innovation programme and future plans

### STRATEGIC OBJECTIVE

Improving engagement and communication with users to better understand and meet customer needs.

#### User engagement and communication

The NFI continually reviews its communications and engagement activities, to ensure it has an up-to-date and comprehensive understanding of NFI participant needs and requirements. This is in order to be able to best meet them, and to ensure that participants have the information they need to operate within the NFI as effectively as possible. In recent years, the NFI has given particular attention to this using a variety of approaches.

As part of these activities, the NFI formed the FraudHub User Group in June 2021 to facilitate discussions between representatives from active FraudHubs, those interested in the product, the NFI team and the NFI's supplier on all aspects of the product. The forum meets regularly, focussing on developing the product to meet the needs of users and sharing good practice.

The NFI team engages regularly with users through a broad range of channels, responding to feedback and providing support, guidance and advice. In April 2022, the NFI ran a full consultation on fees and the work programme for 2022/23, the consultation also gave users another opportunity to feed back on the NFI.

The NFI produces a newsletter for users, to raise awareness of the work in the NFI, communicate operational updates, and provide other information. The newsletter is sent by email to all users and is also available within the secure web application. A special edition celebrating 25 years of the NFI and reaching £2 billion in outcomes was also published in August 2021. The NFI receives positive feedback on the newsletter and continues to develop it in line with user feedback. The NFI also utilises the web application to share regular updates with NFI participants in an easy-to-access format, including on how the web application is being reviewed and updated, and to share guidance with users.

Over the years ahead, improving engagement and communication will remain a core NFI objective. A series of user engagement activities are planned, including workshops and training sessions, and exhibiting at conferences and surveys to further explore user needs.

## The NFI pilots, 2020 - 2022 innovation programme and future plans



### STRATEGIC OBJECTIVE

Embracing new technologies and techniques to improve existing NFI products and develop new ones.

### How the NFI innovates

The NFI programme of innovation has focussed several distinct areas:

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#### User Interface and User Experience

A user experience review of the web application has taken place consisting of a survey and interviews. A programme of improvements has been designed based on this feedback. While this will initially focus on FraudHub, it will extend out to all parts of the web application in due course.

#### Improved Management Information

An overhaul of the management information within the NFI web application is in progress. This will enable users and the NFI Team to better analyse the metrics behind the NFI matches and provide the option to build bespoke reports directly from the web application to access that data.

#### FraudHub functionality

The potential introduction of changes to allow organisations to match datasets that are not standard NFI datasets. This will utilise existing NFI data matching routines to highlight potential frauds. Organisations will undertake this matching using their own legal powers rather than the Local Audit and Accountability Act 2014.

#### AppCheck

An extension of the AppCheck product to test how it might assist with the identification of procurement fraud by verifying company information. This will call on relevant datasets from within the NFI including trade creditors data, and incorporate external data sources such as Companies House and Food Standards Agency data. Other datasets will also be considered to provide additional insight.

#### Automation of Processes

The exploration of how efficiencies can be made in the processing of data by the NFI, through increased automation and improvements to the data matching methods.

#### Risk Scoring

A continuing focus on using predictive analytics to generate risk scores, which will allow the NFI to provide matches to participants in priority order. The methodology behind risk score calculations will be reviewed for the NFI 2022/23, and how they can be best displayed to users.

The NFI will continue to work closely with stakeholders to develop and test NFI products as we take them forward.



## The NFI pilots, 2020 - 2022 innovation programme and future plans

### STRATEGIC OBJECTIVE

Better targeting of existing and new fraud risks.

#### The NFI pilot pipeline

The NFI continues to maintain a pipeline of pilots which are prioritised and delivered according to available resources. Most recently there has been a focus on responding to new fraud risks presented by COVID-19. However, alongside this we have continued to pilot data matching of different types of datasets to address a broad range of existing and new fraud risks, for example the data sharing pilot with HMRC and a tenancy fraud pilot.

#### Targeting tenancy fraud

The NFI launched Phase 1 of an innovative tenancy fraud pilot in 2022, that will bring public sector data and private sector data together to target tenancy fraud, such as subletting and illegal succession.

Our aim is to identify cases where the tenant appears to no longer reside in the tenancy address, but appears to be living elsewhere. We will also identify where other individuals appear to be residing at the tenancy address.

We expect that the data sources used for this pilot will prove valuable additions to the NFI. We will continue to consider how other datasets can be integrated into the solution to provide a strong household composition tool that will be applicable to other fraud problems.



## The NFI pilots, 2020 - 2022 innovation programme and future plans

### STRATEGIC OBJECTIVE

Extending the NFI to areas in addition to fraud to increase its usage and impact.

### Extending the NFI data matching purposes

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 In 2021 the Cabinet Office led a comprehensive consultation on whether and how the NFI should be extended to a range of new areas in addition to fraud. This formal consultation supplemented a period of engagement with a range of organisations, including current NFI participants, on the question of extending the NFI to new areas.

Based on feedback, the NFI chose to focus on four areas in the formal consultation. These were whether the NFI should be extended to assist with the prevention and detection of errors and inaccuracies generally; in the recovery of debt owed to public bodies; in the apprehension and prosecution of offenders; and in the prevention and detection of wider crime, in addition to fraud.

The consultation was extremely useful in outlining the range of views on extending the NFI to the various purposes being considered, and on how any extension should be implemented. Almost 400 responses were provided. The NFI has reviewed the feedback and assessed interest in and support for extension of the NFI to new areas.

The feedback on the extension was variable. While many public sector bodies supported extension, there were many others who raised concerns. In light of

this, and given the Government's commitment to doing more to prevent and detect fraud and help bodies in enhancing their fraud response, fraud will remain the focus of the NFI in the coming years and the service will not be extended to additional areas at this time.

The Cabinet Office will review this decision in due course and will continue to welcome feedback from stakeholders and interested parties on the question of extending the NFI data matching service to tackle other issues.

The full Government response to the consultation has been published and is now available on GOV.UK<sup>52</sup>.



<sup>52</sup> Cabinet Office, [Consultation on the expansion of the National Fraud Initiative \(NFI\) Data Matching Powers and the new Code of Data Matching Practice - GOV.UK](#), February 2021

# The NFI pilots, 2020 - 2022 innovation programme and future plans

## Future plans

### Public Sector Fraud Authority (PSFA)

The establishment of the Public Sector Fraud Authority in August 2022 marks a step change in the Government's counter fraud strategy. With increased investment in counter fraud capability, the PSFA will help the Government to increase the support services it can offer on fraud, including through advanced data analytics. The PSFA will also scrutinise cross-government activities on fraud, aiming to hold Government Departments to account. This investment and associated increased counter fraud activity offers an opportunity for the NFI to play an enhanced role in the fraud landscape. The NFI will support the work of the PSFA, and link into new data analytics services to enhance the techniques and data utilised to target fraud.

### NFI IT service delivery contract

The NFI contract with our current supplier has been extended to December 2024. This provides clarity on the delivery model for the NFI 2022/23 exercise.

During 2022/23, the service requirements for the NFI 2024/25 and beyond will be reassessed. Feedback will be sought from stakeholders and NFI users on the future shape of the NFI, and the planned activities set out earlier in this report, particularly around applying new techniques and technologies into the NFI service offer.



## Comparison of NFI outcomes in England by risk area 2020 to 2022

Dataset	Example activity area	2022 £ million	2020 £ million
Pensions	Individuals obtaining the pension payments of a dead person	250.0	55.5
Council Tax	Individuals who did not qualify for the council tax single person discount because they were living with other countable adults	44.7	43.9
Pilots	Various (excludes HMRC information sharing)	39.7	3.5
Blue badges	Potential misuse of blue badge parking passes belonging to someone who has died	24.4	26.9
Housing waiting lists	Social housing waiting list applicants who were not entitled to social housing	21.8	20.1
Housing benefits	Individuals claiming housing benefit who failed to declare an income or change of circumstances	14.4	35.0
Trade creditors	Traders who intentionally or unintentionally submitted duplicate invoices for payment	6.1	5.1
Concessionary travel passes	Potential misuse of concessionary travel passes belonging to someone who has died	5.5	3.4

## Comparison of NFI outcomes in England by risk area 2020 to 2022

Dataset	Example activity area	2022 £ million	2020 £ million
Council tax reduction scheme	Individuals claiming Council Tax reduction who failed to declare an income or change of circumstances	5.2	6.5
Housing tenancy	Social housing tenants who were subletting or had multiple tenancies unlawfully	2.3	5.6
Residential care homes <sup>53</sup>	Payments to private care homes by a council for the care of a resident where the resident had died	0.9	5.1
Procurement	Employees that have potentially not declared interests in companies that have given a pecuniary advantage or employees who appear to be registered directors of companies that the employing body has traded with.	0.8	-
Other	Miscellaneous outcomes not linked to other specified categories	0.4	0.8
Payroll	Employees working for one organisation while being on long-term sick leave at another	0.3	0.6
Right to Buy	Social housing tenants who were not entitled to right to buy because they had multiple tenancies unlawfully	0.2	1.8
Personal budgets <sup>53</sup>	Individuals claiming a personal budget who failed to declare an income or change of circumstances or were deceased	0.1	2.1
<b>Total<sup>54</sup></b>		<b>416.8</b>	<b>215.8</b>

<sup>53</sup> These are cases reported late from NFI 2018/19 matches, i.e. after 4 April 2020. Due to a legislative change, the NFI stopped processing patient data in 2020

<sup>54</sup> Due to rounding, numbers presented throughout this report may not add up precisely to the totals indicated and percentages may not precisely reflect the absolute figures for the same reason

## Comparison of NFI outcomes in England by case area 2020 to 2022

	2022 Number of cases	2020 Number of cases
<b>Pensions</b>		
Pension payments stopped/adjusted	12,098	2,876
<b>Council Tax single person discount</b>		
Council Tax single person discount claims stopped	32,669	36,728
<b>Housing benefit fraud, error and overpayments relating to:</b>		
Local government employees	80	754
Central government pensioners	77	1,281
Individuals receiving a local government pension	95	1,852
Students	966	1,055
NHS employees	40	282
- Other	390	679
<b>Social housing/Right to Buy</b>		
- Properties recovered	25	60
- Right to Buy wrongly awarded	5	17
- Applicants removed from a housing waiting list	6,736	6,092
<b>Transport</b>		
- Blue badges cancelled	42,393	46,750
- Concessionary travel passes cancelled	225,710	151,815

## Comparison of NFI outcomes in England by case area 2020 to 2022

	2022 Number of cases	2020 Number of cases
<b>Social care<sup>55</sup></b>		
– Residential care homes	68	292
– Personal budgets	6	92
– Other social care	-	50,027
<b>Payroll</b>		
Total employees dismissed or resigned	19	21
<b>Supplier payments</b>		
Duplicate creditor payments	955	1,062
<b>Council tax reduction scheme</b>		
	3,000	2,688
<b>Total</b>	<b>325,332</b>	<b>304,423</b>

<sup>55</sup> These are cases reported late from NFI 2018/19 matches, i.e. after 4 April 2020. Due to a legislative change, the NFI stopped processing patient data in 2020

## Report calculation methodology 2020 - 2022 – England only

Dataset	Amount Detected £ million	Estimated value of future losses prevented £ million	Total £ million	Basis of calculation of estimated outcomes
Pensions	9.3	240.6	250.0	<p><b>Mortality screening:</b> Annual pension multiplied by the number of years until the pensioner would have reached the age of 85</p> <p><b>Injury benefit:</b> Weekly reduction in pension x 260 weeks</p> <p><b>Pension abatement:</b> Provided by the participant</p>
Council tax single person discount	17.2	27.6	44.7	Annual value of council tax single person discount multiplied by two years.
Blue badges	-	24.4	24.4	575 per blue badge cancelled to reflect the estimated annual cost of blue badge fraud, the likelihood that badges are misused and the duration that fraudulent misuse will continue.
Housing waiting list	-	21.8	21.8	£3,240 per applicant removed from the waiting list, based on the annual cost of temporary accommodation, the likelihood that individuals on the waiting list would be provided a council property, and the duration for which fraud or error may continue undetected.
Housing benefit	11.2	3.2	14.4	Weekly benefit reduction multiplied by 21 weeks.
Trade creditors	6.1	-	6.1	Not applicable.
Concessionary travel passes	-	5.5	5.5	Number of passes cancelled multiplied by £24, based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme and the duration of fraudulent pass misuse.
Council tax reduction	3.7	1.5	5.2	Weekly change in council tax discount multiplied by 21 weeks.
Housing tenancy	-	2.3	2.3	£93,000 per property recovered based on an average four-year fraudulent tenancy and an estimate of the duration that the fraud may have continued undetected. This includes temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.



## Report calculation methodology 2020 - 2022 – England only

Dataset	Amount Detected £ million	Estimated value of future losses prevented £ million	Total £ million	Basis of calculation of estimated outcomes
Residential care homes <sup>56</sup>	0.3	0.5	0.8	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks.
Procurement	0.8	-	0.8	Not applicable.
Other	0.4	-	0.4	Not applicable.
Payroll	0.2	0.1	0.3	£5,000 per case where the employee is dismissed or resigns.
Right to Buy	-	0.2	0.2	£84,200 per application withdrawn based on average house prices and the minimum right to buy discount available. A regional variation applies in London of £112,300 per application withdrawn, to reflect the maximum value of Right to Buy discount available.
Personal budgets	0.0	0.0	0.1	Monthly reduction in personal budget payment multiplied by 3 months (the average duration that personal budget payments continue following the death of the recipient).
<b>Sub Total</b>	<b>49.3</b>	<b>327.8</b>	<b>377.2</b>	
Pilots (excluding HMRC)	6.9	32.8	39.7	Water utility companies - Resident at an address when property declared as void uses the annual water charge; Incorrectly claimed discounted tariff uses the average amount of annual discount across the 3 most popular discounted tariffs.
<b>Grand Total<sup>57</sup></b>	<b>56.2</b>	<b>360.6</b>	<b>416.8</b>	

<sup>56</sup> These are cases reported late from NFI 2018/19 matches, i.e. after 4 April 2020. Due to a legislative change, the NFI stopped processing patient data in 2020.

<sup>57</sup> Due to rounding, numbers presented throughout this report may not add up precisely to the totals indicated and percentages may not precisely reflect the absolute figures for the same reason.



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<b>Report to:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	Tuesday, 14 March 2023
<b>Reporting Officer:</b>	Stuart Fair - Director of Finance Martin Nixon – Risk, Insurance and Information Governance Manager
<b>Subject:</b>	<b>CORPORATE RISK REGISTER REVIEW</b>
<b>Report Summary:</b>	To present the Corporate Risk Register detailed at <b>Appendix 1</b> for comment and approval.
<b>Recommendations:</b>	Members consider and approve the Corporate Risk Register attached at <b>Appendix 1</b> .
<b>Corporate Plan:</b>	Managing risks will enable the Council to deliver services safely and in an informed manner to achieve the best possible outcomes for residents.
<b>Policy Implications:</b>	Effective risk management supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance.
<b>Financial Implications:</b> (Authorised by the statutory Section 151 Officer & Chief Finance Officer)	Effective risk management assists in safeguarding assets, ensuring the best use of resources and the effective delivery of services. It also helps to keep insurance premiums and compensation payments to a minimum.
<b>Legal Implications:</b> (Authorised by the Borough Solicitor)	<p>The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2015 (amended 2016):</p> <p>‘A relevant authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk’.</p> <p>Regularly reviewing the Council’s arrangements for risk and updating them as needed ensures that the Council is managing its statutory responsibility.</p> <p>This report is aimed at addressing the requirement that the Council achieves its strategic aims and operates its business, under general principles of good governance and that it identifies risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework.</p>
<b>Risk Management:</b>	Failure to manage risks will impact on service delivery, the achievement of objectives and the Council’s Medium Term Financial Plan.
<b>Access to Information:</b>	<p>The background papers relating to this report can be inspected by contacting Martin Nixon, Risk, Insurance and Information Governance Manager.</p> <p>Telephone: 0161 342 3883</p> <p>e-mail: martin.nixon@tameside.gov.uk</p>

## 1. INTRODUCTION

- 1.1 The report presents the revised and updated Corporate Risk Register for comment, challenge and approval. The report was presented to the Senior Leadership Team on 28 February 2023.

## 2. WHAT IS RISK MANAGEMENT?

- 2.1 Risk Management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling them or responding to them. It is a means of maximising opportunities and minimising the costs and disruption to the organisation caused by undesired events.
- 2.2 Corporate Risks are potential barriers to the Council achieving its priorities and have the potential to disrupt large parts of our service.

## 3. CORPORATE RISK REGISTER

- 3.1 The Corporate Risk Register is attached at **Appendix 1**. It details the risk scores evaluated both in November 2022 and February 2023.
- 3.2 Risk owners (responsible Assistant Directors or Service Unit Managers) have assisted the Risk, Insurance and Information Governance Manager to review the Corporate Risks they have responsibility for. Review comments have been added to the risk register under Appendix 1 alongside each risk.
- 3.3 Risk scores across the whole register have remained consistent with the position in November 2022. There are still Red risks in respect of Risk 1 (Medium Term Financial Plan) where Finance are working with Services to mitigate a forecast budget overspend, Risk 5 (Protection to Vulnerable Children) where a recent Ofsted review has checked on progress with improvement plans, and Risk 26 (Cost of Living Crisis) where the multiple impacts of rising budget costs and increasing public service demand must be managed.
- 3.4 Risks 25 (Recruitment issues) and 26 (Cost of Living Crisis) are considered as having effect on all Council services. Therefore review comments have been prepared following consultation with all Service areas.
- 3.5 The residual score for Risk 8 (Negative impact of Coronavirus on health and wellbeing objectives) has reduced, this now regarded as an Amber category risk. A reduced prevalence of infection has reduced the risk likelihood. There remains indirect impact due to the disruption caused by previous lockdowns and there has been an infection surge over the autumn/winter period.
- 3.6 The key developments in the risk register following review in November 2022 and February 2023 are summarised below.

Risk	Comment	Risk Rating Nov 2022	Risk Rating Feb 2023
1	<b>Finance: Risk the Council is unable to deliver it's Medium Term Financial Plan</b> The projected year end position is currently for the Council to overspend by approximately £2.5m, this will need to be funded by the utilisation of finite reserves. The budget for 23/24 will only	25	25

Risk	Comment	Risk Rating Nov 2022	Risk Rating Feb 2023
	be achieved by the achievement of £16m of savings across the directorates.		
5	<b>Failing to protect vulnerable children - Vulnerable children are put at risk due to poor systems/processes and reduced service provision.</b> Ofsted undertook a Focused Visit in April 2022 on the Front Door, which looked at Early Help, MASH and Duty & Assessment teams. A written notice of improvement was received from the DfE following the visit, and an improvement plan has been agreed. A DfE 6-month review took place on 17/01/23, for which the Service is currently awaiting outcomes.	15	15
8	<b>Population Health: Negative impact of Coronavirus on health and wellbeing objectives.</b> Level of disruption due to Covid-19 impact and measures has reduced in recent months due to changes in policy as part of the government's 'Living With Covid' Strategy, and due to reduced prevalence of infection in the community. There remains a high ongoing indirect impact due to the disruption caused by previous waves of the pandemic and measures put in place. There continue to be unpredictable waves of infection including a surge in infections over the autumn/winter period	15	10
18	<b>Failure to ensure there are sufficient high quality school places (including specialist places and early years provision) and that children all have fair access to our schools.</b> Education working closely with Place and Legal Services to address failings in the BMS Heating system at GAA and Samuel Laycock. If this work cannot be realised in the next three months, there is risk of sustained school closure.	12	12
25	<b>Delivery of services across the Council put at risk due to inability to recruit the required workforce.</b> Rolling recruitment campaigns are in place for key statutory functions. The Apprenticeship levy is being used where possible. Building Control are experiencing recruitment difficulties due to private sector competition. A benchmarking exercise on key job roles is also underway to understand our competitive place in the market particularly for key professional roles.	12	12
26	<b>The risk that the Cost of Living crisis causes budget management pressures, increases in demand for health and social care services, and a detrimental effect to Tameside poverty levels and health.</b> Exchequer collection rates have not deteriorated to date, but this situation will continue to be monitored. Inflation and general market conditions are bringing significant implications for delivery of Growth projects. There is also concern regarding public health impacts caused to those in fuel poverty.	15	15

3.7 The corporate risk scores are summarised in the risk heat maps below:-

**Heat Map 1 – November 2022 (24 Risks)**

		Impact level				
		Insignificant (1)	Minor (2)	Medium (3)	Major (4)	Major Disaster (5)
<b>Likelihood</b>						
<b>Almost Certain</b>	(5)					<b>1</b>
<b>Very likely</b>	(4)			<b>3</b>	<b>5</b>	
<b>Likely</b>	(3)			<b>3</b>	<b>4</b>	<b>3</b>
<b>Unlikely</b>	(2)			<b>1</b>	<b>2</b>	
<b>Very Low</b>	(1)				<b>2</b>	

**Heat Map 1 – February 2023 (24 Risks)**

		Impact level				
		Insignificant (1)	Minor (2)	Medium (3)	Major (4)	Major Disaster (5)
<b>Likelihood</b>						
<b>Almost Certain</b>	(5)					<b>1</b>
<b>Very likely</b>	(4)			<b>3</b>	<b>5</b>	
<b>Likely</b>	(3)			<b>3</b>	<b>4</b>	<b>2</b>
<b>Unlikely</b>	(2)			<b>1</b>	<b>2</b>	<b>1</b>
<b>Very Low</b>	(1)				<b>2</b>	

3.8 The analysis shows that there are currently a total of 8 Red risks across the register, this total a reduction in comparison to the 9 Red risks reported in November 2022.

**4 RECOMMENDATIONS**

4.1 As set out at the front of the report.

Corporate Plan Theme	Risk No.	Risk Description	Residual Impact score	Residual Likelihood score	Residual Risk rating (Impact x Likelihood) Nov 2022	Residual Impact score	Residual Likelihood score	Residual Risk rating (Impact x Likelihood) Feb 2023	Direction of Travel	Risk Owner (Director)	Responsible AD/SUM	Updated position and other comments
Starting Well	1	The Council is unable to deliver its Medium Term Financial Plan - Failure to deliver services within available budgets and provide for future financial stability, including the maintenance of the Council's resource base and council tax collection and dealing with the current cost pressures and demand levels in Children's Services.	5	5	25	5	5	25	⇒	Stuart Fair	Caroline Barlow	The financial climate is continuing to present very significant challenges and the Council continues to experience overspends across a range of budget areas, particularly across salary costs and utilities. The projected year end position is currently for the Council to overspend by approximately £2.5m, this will need to be funded by the utilisation of finite reserves. The Final Settlement for 23/24 has now been received. Whilst there is some additional funding, which is welcome, it is, by no means, sufficient to cover inflationary uplifts or increasing demand pressures within Adults and Children's. The budget for 23/24 will only be achieved by the achievement of £16m of savings across the directorates. Analysts expect the economy to narrowly avoid recession and for inflation to reduce somewhat but to continue at very high levels for 23/24 and beyond. A further 1 year settlement provides no reassurance that future financial settlements will improve the financial position. There remains urgent and unrelenting work with Directorates to deliver on options for budget reductions for 23/24 and to identify similar levels of savings for 24/25,
Living Well												
Ageing Well												
Great Place Inclusive Growth												
Corporate Support and Enabling Services	2	Not implementing the latest products or best practice in information technology to ensure that the organisation remains effective and efficient, enabling it to deliver its services.	3	4	12	3	4	12	⇒	Stuart Fair	Colin Skoyles	Deployment of Office 365 is underway. Teams Meeting mode was completed in April. Teams Voice will complete in July, Sharepoint sites and Teams Champions are underway. Board/Cabinet approval of additional resource for roll out and support of Office 365 has been provided. Planned work continues to support further deployment of the Office 365 product suite.  Jan 23 - Score remains unchanged. A review is required of all systems across TMBC to understand available product set / maintenance and upgrade paths.
Ageing Well	3	Failure to manage the local home care market and care home capacity available to deliver appropriate and timely care packages and appropriate placements for people requiring long term care.	4	3	12	4	4	16	⇒	Stephanie Butterworth	Tracey Harrison	The care market is currently under significant pressure. There is a national workforce shortage and we are seeing the impact of this locally. For example there are challenges to find care packages without significant waiting times. Providers are raising concerns about their ability to sustain services at the current fee levels.  Cost of living increases are impacting on the ability of staff to remain working in the sector – providers are competing with seasonal retail and hospitality work, which is better paid.  Providers are seriously considering both their financial viability and ability to attract staff following the loss of additional Covid funding which ceased on 31 March 2022. Providers are also being hit significantly by the rising cost of mortgages.  Given the fragility of the market, there is an increased likelihood of the local authority needing to seriously consider being a 'provider of last resort', and so work is ongoing to recruit staff to provide this capacity.
Great Place Inclusive Growth	4	The property portfolio rationalisation necessary for the delivery of appropriate council wide services is not delivered and consequently savings and capital receipts required to fund the current and future investment programme are not achieved.	3	3	9	3	3	9	⇒	Julian Jackson	Vacant	The rationalisation strategy in relation to the Council's operational buildings is being revisited in light emerging priorities, such as the Children's Transformation journey. However, it is anticipated that alternative revenue savings (and in some cases capital receipts) will be achieved elsewhere across the Council's estate.  New proposals regarding a rationalisation of the Council's estate are in progress, with mitigations to address previously undelivered savings to be developed.
Starting Well	5	Failing to protect vulnerable children - Vulnerable children are put at risk due to poor systems/processes and reduced service provision.	5	3	15	5	3	15	⇒	Alison Stathers-Tracey	Tony Decrop	Ofsted undertook a Focused Visit on the 27th and 28th April on the Front Door, which looked at Early Help, MASH and Duty & Assessment Teams. A written notice of improvement has been received from the DiE in addition to the 2 priority actions received following the visit.. The Improvement Board continues to meet to monitor the new improvement plan. The DiE Advisor is now an appointed position within the Service and will chair the Improvement Board going forward. Further meetings of the Children's Scrutiny Committee are timetabled, with a work programme agreed. A DiE 6-month review took place on 17/01/23, for which the Service is currently awaiting outcomes.

Starting Well	6	Failure to ensure effective services (ILACS, LAR, YJS etc.) which are highly regarded by regulators and that robust improvement plans are in place NB. likelihood of 4 is driven by SEND	4	4	16	4	4	16	⇒	Alison Stathers-Tracey	Jane Sowerby	This risk remains high. Tameside has now received a SEND inspection and is required to produce a written statement of action. Tameside receives the lowest level of SEND funding in Greater Manchester. Tameside's funding is being capped by the Government. This cap costs Tameside £3m a year. This resource gap is causing a significant pressure. The impact of COVID has been significant on SEND health services and has caused an increase in demand for statutory assessment.
Corporate Support and Enabling Services	7	Failure to effectively implement and monitor the effectiveness of a health and safety management system within the organisation.	4	1	4	4	1	4	⇒	Julian Jackson	Sharon Smith	Risk assessments are continuously reviewed. The Health and Safety Team are carrying out Service Audits to ensure that appropriate Safety Management systems are being applied. Significant work was completed during lockdown around stress. Accident and incident reports continue to be closely monitored with the Health and Safety Team assisting in accident investigations as necessary and reporting on any recommendations towards improvements that need to be put into effect. Health and safety is discussed and reported on at Directorate meetings, at the Corporate Health & Safety Group and will be reported on quarterly basis to the Employment Consultation Group
Living Well	8	Coronavirus has a negative impact on health and wellbeing objectives, immediately through direct COVID illness and death; to non-COVID healthcare being displaced or delayed; to short and long-term impact on socio-economic determinants of health and wellbeing.	5	3	15	5	2	10	⇩	Debbie Watson	James Mallion	Level of disruption due to Covid-19 impact and measures has reduced in recent months due to changes in policy as part of the government's Living With Covid Strategy, and due to reduced prevalence of infection in the community. There remains a high ongoing indirect impact due to the disruption caused by previous waves of the pandemic and measures put in place. This is particularly the case in the health and social care system and care homes, where there continue to be service pressures on the back of the pandemic. Pressures in healthcare and adult social care include measures such as strict IPC controls and outbreak response. Outbreaks in care homes are at a lower level than seen previously. There continue to be unpredictable waves of infection including a surge in infections over the autumn/winter period, alongside other seasonal challenges such as influenza. Impacts of escalations could include localised outbreaks (eg. care homes), service & staffing disruption, and the rapid stand up of operational responses such as Covid-19 booster vaccinations. The universal vaccination programme is ending with further seasonal boosters for specific groups likely going forward. A winter booster vaccination programme for all over-50s, vulnerable groups and front line health and social care staff has been delivered, in line with another year of expanded flu vaccination eligibility.
Living Well	10	Increased demand for services due to demographic changes - Tameside is unable to meet the needs of its ageing population and young people with increasingly complex needs. This is against a back drop of ongoing budget pressures and increased impact from pandemic such as widening health inequalities.	4	3	12	4	3	12	⇒	Stephanie Butterworth	Tracey Harrison	ASC continues to understand current and future demand for services. Improved systems and linkages with Children's Services through the Preparing for Adulthood Lead will ensure that there is good quality intelligence to inform future budget setting, identifying pressures and the type and level of accommodation and local services that are required. This work is supported by Finance colleagues. Regardless of the level of planning and development of services, there are expensive placements costs that will place pressure on budgets e.g. a new care package has become the responsibility of ASC in March 2022 at a cost of £13,000 per week. Care home placements and home care requirements are demand led, so as the complexity of demand increases, so does the cost of formal interventions. A high level plan for implementation of the white paper is in place from April 2022. Modelling work on future demand and anticipated reform changes has formed the basis of a report to Exec Cabinet at the end of Sept 2022 - considering the capacity needed in ASC to ensure safe services and meeting statutory duties.
Corporate Support and Enabling Services	11	The inconsistent application of information standards and controls could result in a significant, unauthorised disclosure of personal and/or special category data.	4	4	16	4	4	16	⇒	Sandra Stewart / Stuart Fair	Christine Weston	Work is required with IT Services to review the technological based policies and procedures. Cyber Ninjas training on Me Learning has recently been updated, with a mandatory requirement that all staff complete it. Deadline to be extended to the end of March 2023 for those not yet completed. There will be an annual requirement for completion. Appropriate cyber and data protection is to be made available for members



Corporate Support and Enabling Services	12	Ineffective procurement and contract monitoring - Procurement does not deliver value for money and is not conducted in line with best practice, PSOs and legislation. The strategic focus on commissioning is less effective due to a lack of skills and capacity to drive the change in culture.	3	3	9	3	3	9	⇒	Stuart Fair	Caroline Barlow	Contract Procedure Rules were updated and streamlined and approved at Council in Oct 2022. These amended CPRs are improving the timeliness of procurement activity. STAR have experienced a number of procurement vacancies, most of which have now been filled but there do remain a number of operational challenges. Quarterly meetings are now scheduled in with key officers from the Council and STAR to improve working arrangements and resolve operational difficulties. Compliance and Value for Money is improved but further work is needed on ensuring robust contract monitoring across the Council
Great Place Inclusive Growth	13	Tameside is unable to exploit growth opportunities and this has a detriment to residents, local businesses and the borough's future prosperity.	3	4	12	3	4	12	⇒	Julian Jackson	Gregg Stott	There is a continued push on taking forward key strategic sites and town centres working with landowners and the private sector. There has been significant progress made with plans and programmes associated with these priorities, leveraging in external funding/investment. The pipeline in Tameside is strong and it will be imperative to continue the momentum. TMBC was successful in securing £20m Levelling Up Fund into Ashton and has also secured funding from other sources including GMCA, Homes England, DWIP and other. Most recently, the Council successfully secured two rounds of funding from UKSPF for purposes of Place and growth. There is a strong pipeline for positioning key projects and programmes for other investment, although there is a growing pressure on resource and capacity - particularly within the competitive bidding environment of Governmental funding. It is important that TMBC retain the Place/Growth agenda as a priority and ensure the Borough are in the strongest position. The Council will continue to engage with all funding/investment opportunities working closely with the market.
Starting Well	14	Implementation of a GM Integrated Care System may increase the operational and financial risks of the Council and may delay our progress in implementing local strategies to improve population health outcomes.	4	3	12	4	3	12	⇒	Sandra Stewart	Single Leadership Team	The Board including the Executive team of the Greater Manchester ICS is now in place. This has clarified continued desire for integrated health and social care leadership. Tameside have confirmed the Place Based Lead as the Chief Executive and the Deputy Place-based Lead as Trish Cavanagh. Financial discussion happen at each Strategic Partnership Board. A system-wide Tameside Finance Efficiency Group has been established.
Living Well												
Ageing Well												
Great Place Inclusive Growth												
Great Place Inclusive Growth	16	Failure to provide an appropriate Civil Contingencies response to an incident or emergency affecting the community or the Council, including the risks relating to extreme weather conditions due to climate change or in response to the current COVID-19 pandemic.	4	2	8	4	2	8	⇒	Julian Jackson / Stuart Fair	Emma Varnam Mike Gurney Christine Weston	The Chief Officers Group meet quarterly a review of Civil Contingencies and training plan is in progress within GMCA. The processes and support are well documented and the mutual aid support arrangements have been tested.  Emergency planning and on-call training has been rolled out for officers in the Winter of 2023. A new suite of Health and Safety training is being delivered for Tameside managers. Business Continuity plans have been reviewed in response to Power outages across the Council functions. Business Continuity will be addressed once services have determined the delivery model in terms of hybrid working.
Great Place Inclusive Growth	17	The Council fails to benefit from the opportunities generated from the increased central government devolution to the Greater Manchester Region.	3	4	12	3	4	12	⇒	Single Leadership Team	Senior Management Group	The Borough (as with every other area) has been materially impacted by the COVID pandemic. TMBC continues to work directly with and in partnership with GMCA progressing forward the Devolution Trailblazer and other with Government. TMBC has been successful in securing initial first round bidding of Levelling Up Fund bringing in £19.87m towards Ashton Town Centre. As outlined above, TMBC has also been successful in securing other substantial funding and investment in to the Borough and continues to drive a strong pipeline across investment, development, housing and Place (including economy, employment, skills). Whilst there is a continued wait for details to be established around levelling up, devolution, funding and other, TMBC will continue to drive its Growth agenda and look to bring additionality to that from the GM & national level where possible. It is important TMBC continues to drive the Place agenda as a priority and work in partnership with the private sector and other stakeholders to achieve the maximum delivery and outcomes for the Borough. (Gregg Stott)

Starting Well	18	Failure to ensure there are sufficient high quality school places (including specialist places and early years provision) and that children all have fair access to our schools.	4	3	12	4	3	12	⇒	Alison Stathers-Tracey	Jane Sowerby	High quality collaborative work with school leaders is supporting plans to increase places in specialist and secondary provision. Whilst we continue to meet parental preferences for mainstream places, there are significant demands for specialist places. We are working with colleagues in Place to mitigate capacity challenges within capital delivery teams heightened by the building of a new special school due to open in September 2024. A SEND Sufficiency Strategy is being developed - due to be completed September 2023. We are working closely with Place and Legal Services to address failings in the BMS Heating system. If this work can't be realised in the next three months, there could be a real and present danger of sustained school closure at GAA and Samuel Laycock. Legal Services is supporting work to bring the FM contract to a mutual close to enable the schools to undertake the repair work which can only be undertaken over the summer holidays.
Corporate Support and Enabling Services	19	Pension Fund investments do not provide the appropriate/anticipated level of assets to meet liabilities.	4	1	4	4	1	4	⇒	Sandra Stewart	Tom Harrington Paddy Dowdall	The GMPF assessment of risk regarding strategic allocation of assets to underpin liabilities is unchanged, with current controls evaluated as effective. The updated Funding risk register was presented to the Local Pension Board on 19 January 2023.
Great Place Inclusive Growth	20	The lack of an up to date strategic planning framework and associated local policies to manage development in Tameside.	4	2	8	4	2	8	⇒	Julian Jackson	Julian Jackson	Places for Everyone was submitted in February 2022 and is currently being examined. Hearing sessions are on-going and are scheduled up to April 2023. There may be a need for future hearing sessions. It is likely that should a plan be found sound it will be subject to a number of modifications and will require a further period of consultation for a minimum of 6 weeks. This is likely to be Autumn/Winter 2023 at the earliest and depends on the findings of the inspectors. Notwithstanding progress on Places for Everyone, there is still a need to progress a local plan to deal with issues local to Tameside. An integrated assessment is being undertaken at present and will be progressed in 2023. However, plan-making may be impacted by proposed changes to the planning system, the full details of which are awaited.
Corporate Support and Enabling Services	21	Failure to prevent or detect acts of significant fraud or corruption with consequent financial or reputational damage to the Council.	3	3	9	3	3	9	⇒	Stuart Fair	Caroline Barlow Christine Weston	An appropriate culture and risk awareness are currently in place. Corporate fraud policies and guidance has been/is being reviewed and once approved it will be linked to fraud awareness training for managers, staff and members. Financial Regulations, Procurement Standing Orders and Codes of Conduct are embedded within the organisation. Internal Audit review systems and controls ensuring that there are segregation of duties. An Annual Governance Statement is produced. Data matching exercises to detect fraud/error are undertaken on a regular basis in conjunction with the Cabinet office as part of the National Fraud Initiative.
Living Well	22	In-effective community cohesion. The community cohesion activities undertaken do not have the required results, of raising awareness, integration and acceptance within the community.	3	2	6	3	2	6	⇒	Julian Jackson	Emma Varnam	A new Community Safety Strategy is in place. The IAG continues to do excellent work - meeting regularly and addressing key issues with community groups across the borough. A new Community Cohesion report has been drafted and presented to the Inequalities Reference Group and a metric and actions will be monitored quarterly. The Prevent Steering Group meets bi-annual with mandatory training provided for all Council staff.
Corporate Support and Enabling Services	23	ICT technical vulnerabilities lead to cyber attacks/exploitation of ICT infrastructure or behavioural vulnerabilities lead to misuse of ICT equipment and the potential loss or destruction of data'.	4	4	16	4	4	16	⇒	Stuart Fair	Colin Skoyles	Whilst the prevalence and risk of cyber incidents continues to rise globally, we are continuing to improve both the technology we have in place to keep our digital assets safe, as well as introduce controls and measures to manage the risk and mitigate the impact should an incident occur. Board/Cabinet approval of additional resource has been approved. Full cyber review is underway, aligned to the SOCITM investment and recommendations. Working alongside the ICFT to review possible shared investment in monitoring technologies or sole investment to provide TMBC with proactive monitoring of systems and services.  Jan 23 - The risk remains unchanged. TMBC continue to employ systems that are no longer vendor support. End users and their devices also remains the soft underbelly of the TMBC cyber vulnerability as with all other organisations.

Ageing Well	24	Insufficient funding to be able to deliver entirety of ASC reform programme within timescales and quality, including the Fair Cost of Care.	4	4	16	4	4	16	➡	Stephanie Butterworth	Tracey Harrison	An ASC Transformation Programme has been set up to track, monitor and report against progress of the Reform, LPS and any changes that impact the delivery of ASC duties and responsibilities, with a key focus on improving outcomes for local people. Members of the Adults Leadership Team and support services across the council are involved in working groups locally, nationally and regionally to keep abreast of developments and informing the local model. The White Paper requires delivery of the fair cost of care and the cap on care, and in Tameside there is a desire to deliver the real living wage (RLW). This would aid the care market which is significantly under pressure, however, there will be financial impacts to the council. A Fair Cost of Care exercise was presented privately to Cabinet at the end of October.
Starting Well	25	Delivery of services across the Council put at risk due to inability to recruit the required workforce.	4	3	12	4	3	12	➡	Sandra Stewart	Tracy Brennan	There are rolling recruitment campaigns in place for key statutory functions. In Childrens and Adults the campaigns are supported by dedicated web pages, recruitment videos, updated Job adverts and information outlining the benefits of working for Tameside. A refreshed childrens workforce strategy has been drafted for agreement by the improvement board in Spring 2023. The Apprenticeship levy and other opportunities to 'grow your own' are being used to promote, train and value people who wish to change careers but remain working for Tameside. A benchmarking exercise on key job roles is also underway to understand our competitive place in the market particularly for key professional roles. Specific Service area issues include difficulties in recruiting to Building Control due to private sector competition, and a potential impact on ICT service delivery due to a key vacancy placed on hold. A Workforce strategy to aid staff retention has been developed and rolled out to staff for consultation.
Living Well												
Ageing Well												
Great Place Inclusive Growth												
Starting Well	26	The risk that the Cost of Living crisis causes budget management pressures to Council Services, possible increases in community demand for health and social care services, and the detrimental effect to Tameside poverty levels and health.	5	3	15	5	3	15	➡	TBA	TBA	The very high level of inflation is expected to result in an adverse budget position. Analysts expect this to continue with the risk that the economy is moving into recession. Increased energy costs have already hit and further inflationary pressures are expected to follow. Exchequer collection rates have not deteriorated to date, but this situation will continue to be monitored. Concern also raised regarding public health impacts caused to those in fuel poverty who do not adequately heat their homes. Cold homes can potentially lead to a range of health conditions— including short term increase in respiratory and CVD issues in those already vulnerable. In Children's Social Care placement costs in 2023 are still under pressure, increased demand is monitored. Inflation and general market conditions is bringing significant implications for delivery of Growth projects. Costs of construction, supply of materials and workforce supply is a major issue and will therefore robust project management will be important to deliver projects within reduced budgets.
Living Well												
Ageing Well												
Great Place Inclusive Growth												

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