



ORIGINATOR: T/CHIEF FINANCE OFFICER

PAPER NO: AC22/10

SUBMITTED TO: AUDIT COMMITTEE 24 JUNE 2022

SUBJECT: REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL  
2021/22

**SUMMARY:**

1. The Accounts and Audit Regulations 2015 requires the OPCC to review annually the effectiveness of the system of internal control and for the findings to be considered by the Joint Audit Committee as part of the consideration of the system of internal control.
2. The effectiveness of the system of internal control for 2021/22, summarised within this report, includes the internal auditor's performance against pre-defined indicators, compliance with the Public Sector Internal Audit Standards, the Head of Internal Audit's interim annual opinion, and a self-assessment of the Joint Audit Committee.
3. The report presents the results of the annual review of the effectiveness of the system of internal control.

**RECOMMENDATIONS:**

1. The Committee is asked to acknowledge that the internal auditor is compliant with the Regulations and Standards and, through the self-assessments set out in this report, can take assurance that there is an effective system of internal control.
2. The Committee is asked to consider the CIPFA self-assessment checklists (Appendices A and B) for Audit Committees and, in the course of its work throughout the current financial year 2022/23, identify gaps or areas for improvement and take action to ensure continued compliance.

## DETAIL OF THE SUBMISSION

### 1. KEY ISSUES FOR CONSIDERATION:

#### Statutory requirements and relevant guidance

- 1.1 In accordance with the Accounts and Audit Regulations 2015 (the Regulations):
  - a) **Regulation 3:** A relevant authority must ensure that it has a sound system of internal control which:
    - **facilitates** the effective exercise of its functions and the achievement of its aims and objectives;
    - **ensures** that the financial and operational management of the authority is effective; and
    - **includes** effective arrangements for the management of risk.
  - b) **Regulation 6:** Bodies must, each financial year, conduct a review of the effectiveness of the system of internal control required by Regulation 3, and, following the review, the findings must be considered by a Committee of the Body as a whole.
- 1.2 The Joint Audit Committee is invited to review the tests of effectiveness set out in this report and the extent to which the system of internal control is effective against them.
- 1.3 There are two parts to this review:

**Part 1** – The performance of the internal audit function; and

**Part 2** – Audit Committee effectiveness, to the extent that its work relates to internal audit.
- 1.4 The purpose of the review is to ensure that the opinion in the annual report on internal audit work may be relied upon as a key source of evidence in the PCC's and Chief Constable's Annual Governance Statements.
- 1.5 The review is primarily about effectiveness, not process. The focus of this review should be on the delivery of the internal audit service to the required standard in order to produce the required outcome (i.e. a reliable assurance on internal control and the management of risks).

#### PART 1 – Performance of the Internal Audit Function 2021-22

##### Audit Work Undertaken – Performance Indicators

- 1.6 The Joint Audit Committee agreed the internal audit plan for 2021/22 on 12 March 2021. This was revised and reduced in scope to ensure that sufficient assurance was obtained to support the Head of Internal Audit opinion.
- 1.7 Internal Audit carries out a programme of work which is at a level necessary to satisfy the legal and professional obligations of the PCC and Chief Constable. TIAA provided the internal audit service to Suffolk PCC and Chief Constable in 2021/22. The 2021/22 internal audit plan was a joint one with Norfolk PCC and Chief Constable.

- 1.8 Customer surveys are issued after each audit. Information obtained from these provides Internal Audit with feedback on their processes (before, during and reporting the audit). Responses received have indicated a satisfactory or above level of service.
- 1.9 The target to despatch a minimum of 95% of audit reports within 10 working days of completion was met with 100% being achieved. In addition, the other performance indicators – a) completion of planned audits; b) audit completed within time allocation and c) compliance with Public Sector Internal Auditing Standard all achieved 100%.

### **Compliance with the Public Sector Internal Audit Standards**

- 1.10 The Public Sector Internal Audit Standards (PSIAS) provide a framework for measurement, management and monitoring of the internal audit function.
- 1.11 To measure compliance with the PSIAS, a checklist has been devised by CIPFA. TIAA undertake an annual assessment against the standards which is carried out by an independent organisation. The outcome of this assessment is that TIAA are fully compliant.

### **Quality Assurance**

- 1.12 Internal Audit, in striving to achieve its objectives, operates a quality assurance system which meets the standard of ISO 9001:2008. The quality management systems operated provide a framework of credibility, support and control which enables the service to be directed and managed so that the needs, wishes and expectation of all customers can be balanced to greatest effect against the coverage necessary to meet statutory requirements and considering the views of any external assessors.
- 1.13 Compliance with the standard is assessed annually, with an external assessment every five years. The last external assessment, in 2017, confirmed full compliance with all of the standards.

### **Head of Internal Audit Opinion**

- 1.14 The Head of Internal Audit's interim opinion covering 2021/22 is as follows:  
TIAA is satisfied that, for the areas reviewed during the year, for the Police and Crime Commissioner for Suffolk and Chief Constable of Suffolk Constabulary effective risk management, control and governance processes are in place.

## **PART 2 –Audit Committee Effectiveness**

### **Audit Committee Toolkit**

- 1.15 The effectiveness of the system of internal control should include the effectiveness of the audit committee itself. Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting, and the

management of other processes required to achieve the PCC and Constabulary's corporate and service objectives.

1.16 This Committee has wider terms of reference than the Code. It is important that there is independent assurance about the mechanisms underpinning these aspects of governance. Specifically:

- a) **independent assurance** of the effectiveness of the control environment and associated anti-fraud and anti-corruption arrangements;
- b) **independent review** of financial and non-financial performance to the extent that it affects the PCC and Constabulary's exposure to risk and weakens the control environment, and
- c) **assurance** that any issues arising from the process of drawing up, auditing and certifying the annual accounts are properly dealt with and that appropriate accounting policies have been applied.

1.17 CIPFA has produced a 'Self-assessment of Good Practice' checklist for audit committees. This provides a high-level review that incorporates the key principles set out in *CIPFA's Position Statement: Audit Committees in Local Authorities and Police*. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. The checklist, shown as Appendix A, was completed by the PCC T/CFO.

1.18 A second self-evaluation checklist – 'Evaluating the Effectiveness of the Audit Committee', has also been produced by CIPFA. This is shown as Appendix B and has also been completed by the PCC T/CFO.

1.19 **The completed checklists show that the Joint Audit Committee has fully discharged its statutory responsibilities, including managing the interaction between the systems of internal control and internal audit, and understand what its role and responsibilities are.**

1.20 CIPFA's core knowledge and skills framework for audit committee members is provided at Appendix C. This is presented to inform Joint Audit Committee members' continuous professional development requirements. The OPCC and Constabulary are happy to support members' CPD needs.

#### **Conclusions from PART 1 and PART 2 reviews**

1.21 Compliance with the Public Sector Internal Audit Standards, Accounts and Audit Regulations and CIPFA guidance, together with continued accreditation to the quality assurance standard, and the results of customer satisfaction surveys, show high levels of effectiveness are being achieved.

1.22 **From the work undertaken, the Joint Audit Committee can take assurance that there is an effective system of internal control.**

**2. FINANCIAL IMPLICATIONS:**

2.1 There are no financial implications.

**3. OTHER IMPLICATIONS AND RISKS:**

3.1 There are no other implications and risks outside of those presented in this report.

<b>ORIGINATOR CHECKLIST (MUST BE COMPLETED)</b>	<b>PLEASE STATE 'YES' OR 'NO'</b>
Has legal advice been sought on this submission?	NO
Has the PCC's Chief Finance Officer been consulted?	YES
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	YES
Have human resource implications been considered?	YES
Is the recommendation consistent with the objectives in the Police and Crime Plan?	YES
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	YES
Has communications advice been sought on areas of likely media interest and how they might be managed?	NO
Have all relevant ethical factors been taken into consideration in developing this submission?	YES

## Self-assessment of Good Practice

	Good practice questions	Yes	Partly	No
<b>Audit committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?	✓		
2	Does the audit committee report directly to full council? (Applicable to local government only.)	n/a		
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓		
4	Is the role and purpose of the audit committee understood and accepted across the authority? <sup>1</sup>	✓		
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓		
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?	✓		
	• good governance	✓		
	• assurance framework	✓		
	• internal audit	✓		
	• external audit	✓		
	• financial reporting	✓		
	• risk management	✓		
	• value for money or best value	✓		
	• counter-fraud and corruption.	✓		
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓		
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓		
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	n/a		
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓		

Good practice questions		Yes	Partly	No
<b>Membership and support</b>				
12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>• separation from the executive</li> <li>• an appropriate mix of knowledge and skills among the membership</li> <li>• a size of committee that is not unwieldy</li> <li>• where independent members are used, that they have been appointed using an appropriate process.</li> </ul>	✓		
13	Does the chair of the committee have appropriate knowledge and skills?	✓		
14	Are arrangements in place to support the committee with briefings and training?	✓		
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory? <sup>2</sup>	✓		
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓		
17	Is adequate secretariat and administrative support to the committee provided?	✓		
<b>Effectiveness of the committee</b>				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓	
19	Has the committee evaluated whether and how it is adding value to the organisation? <sup>3</sup>	✓		
20	Does the committee have an action plan to improve any areas of weakness?	n/a		

**Notes:**<sup>1</sup> The Audit Committees role and purpose are known by the Office of the PCC and senior Constabulary officers and staff.<sup>2</sup> Assessment was undertaken as part of the initial interview process for Audit Committee members.<sup>3</sup> See results of JAC self-assessment at appendix B

# Evaluating the Effectiveness of the Audit Committee

Assessment key			
<b>5</b>	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.		
<b>4</b>	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.		
<b>3</b>	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.		
<b>2</b>	There is some evidence that the committee has supported improvements, but the impact of this support is limited.		
<b>1</b>	No evidence can be found that the audit committee has supported improvements in this area.		
Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: (5 – 1)
<b>Promoting the principles of good governance and their application to decision making.</b>	<ul style="list-style-type: none"> <li>• Providing robust review of the AGS and assurances underpinning it.</li> <li>• Working with key members/ governors to improve their understanding of the AGS and their contribution to 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>	<ol style="list-style-type: none"> <li>1. Consideration of PCC and Constabulary annual governance statements.</li> <li>2. Ensuring internal audit recommendations are implemented.</li> <li>3. Application of CIPFA best practice checklists.</li> <li>4. Collaboration with Norfolk e.g. internal audit tender.</li> </ol>	4
<b>Contributing to the development of an effective control environment.</b>	<ul style="list-style-type: none"> <li>• Monitoring the implementation of recommendations from auditors.</li> <li>• Encouraging ownership of the internal control framework by appropriate managers.</li> </ul>	<ol style="list-style-type: none"> <li>1. Internal Audit outcomes / follow-ups; Specific Audit Committee papers.</li> <li>2. Consideration of Annual Governance Statements.</li> <li>3. Audit Committee Chair pre-briefings with the Constabulary.</li> </ol>	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: (5 – 1)
	<ul style="list-style-type: none"> <li>Raising significant concerns over controls with appropriate senior managers.</li> </ul>	<ol style="list-style-type: none"> <li>Audit committee access to internal auditor.</li> </ol>	
<b>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</b>	<ul style="list-style-type: none"> <li>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.</li> <li>Monitoring improvements.</li> <li>Holding risk owners to account for major/strategic risks.</li> </ul>	<ol style="list-style-type: none"> <li>Annual report on risk management from OPCC Chief Executive.</li> <li>Audit review reports and monitoring implementation of recommendations.</li> <li>Monitoring significant governance issues from annual governance statements.</li> <li>Opportunities for JAC members to question internal and external audit teams at audit committee members and also outside of formal meetings.</li> </ol>	4
<b>Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</b>	<ul style="list-style-type: none"> <li>Specifying its 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, e.g. internal audit, risk management, external audit.</li> </ul>	<ol style="list-style-type: none"> <li>Review of internal audit strategy and plan at audit committee meetings for both progress and scope of work.</li> <li>Review of external audit plan ahead of work with comprehensive audit results report presented to JAC.</li> <li>Recommending changes to timing of reviews to address emerging or high-risk areas.</li> <li>Schedule of committee business.</li> </ol>	4
<b>Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.</b>	<ul style="list-style-type: none"> <li>Reviewing the audit charter and functional reporting arrangements.</li> <li>Assessing the effectiveness of internal audit arrangements and supporting improvements.</li> </ul>	<ol style="list-style-type: none"> <li>Terms of reference for the JAC establishing internal audit independence.</li> <li>Contracting with third-party internal audit provider rather than in-house team.</li> <li>Annual review of effectiveness of the system of internal control that covers the performance of the internal audit function.</li> </ol>	4
<b>Aiding the achievement of the authority's goals and objectives through helping to ensure</b>	<ul style="list-style-type: none"> <li>Reviewing major projects and programmes to ensure that governance</li> </ul>	<ol style="list-style-type: none"> <li>Regular meetings of JAC throughout the financial year with a structured agenda and developed business schedule</li> </ol>	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: (5 – 1)
<b>appropriate governance, risk, control and assurance arrangements.</b>	<ul style="list-style-type: none"> <li>and assurance arrangements are in place.</li> <li>• Reviewing the effectiveness of performance management arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>ensuring all relevant areas of business are covered.</li> <li>2. Accountability and Performance Panel scrutiny of Constabulary risk register and risk management. Panel chaired by PCC and part of his arrangements for holding the Chief Constable and wider Constabulary to account.</li> </ul>	
<b>Supporting the development of robust arrangements for ensuring value for money.</b>	<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> </ul>	<ul style="list-style-type: none"> <li>1. Terms of Reference; Ad-hoc papers / reports; Annual Report on AGS.</li> <li>2. Consideration of external auditors VFM audit plan and audit results.</li> <li>3. Opportunities for JAC members to question external auditors on VFM matters.</li> </ul>	4
<b>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</b>	<ul style="list-style-type: none"> <li>• Reviewing arrangements against the standards set out by CIPFA</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.</li> </ul>	<ul style="list-style-type: none"> <li>1. Confidential reporting and whistleblowing policy.</li> <li>2. Fraud and corruption is dealt with through The Constabulary's Professional Standards Department/ Anti-Corruption Unit.</li> <li>3. Letter to the external auditor on understanding fraud risk presented to JAC alongside statements of account.</li> <li>4. Updates on code of ethics.</li> </ul>	4
<b>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.</b>	<ul style="list-style-type: none"> <li>• Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</li> <li>• Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</li> </ul>	<ul style="list-style-type: none"> <li>1. JAC meetings open to members of the public and papers/ minutes published on the OPCC website.</li> <li>2. Compliance with the 'Specified Information Order'.</li> <li>3. Publication of annual governance statements and statements of account.</li> <li>4. Compliance with scheme of governance and consent.</li> </ul>	4

# Audit Committee Members – Knowledge and Skills Framework

## Core areas of knowledge

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
<b>Organisational knowledge</b>	<ol style="list-style-type: none"> <li>1. An overview of the governance structures of the authority and decision-making processes.</li> <li>2. Knowledge of the organisational objectives and major functions of the authority.</li> </ol>	<ul style="list-style-type: none"> <li>• This knowledge will be core to most activities of the audit committee including review of the Annual Governance Statement, internal and external audit reports and risk registers.</li> </ul>
<b>Audit committee role and functions</b>	<ol style="list-style-type: none"> <li>1. An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements.</li> <li>2. Knowledge of the purpose and role of the audit committee.</li> </ol>	<ul style="list-style-type: none"> <li>• This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.</li> </ul>
<b>Governance</b>	<ol style="list-style-type: none"> <li>1. Knowledge of the six principles of the CIPFA/SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS).</li> <li>2. Knowledge of the local code of governance.</li> </ol>	<ul style="list-style-type: none"> <li>• The committee will plan the assurances it is to receive in order 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> </ul>
<b>Internal audit</b>	<ol style="list-style-type: none"> <li>1. An awareness of the key principles of the Public Sector Internal Audit Standards and the Local Government Application Note.</li> <li>2. Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.</li> </ol>	<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. 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> </ul>
<b>Financial management and accounting</b>	<ol style="list-style-type: none"> <li>1. Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them.</li> </ol>	<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> </ul>

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
	<p>2. Understanding of good financial management principles.</p> <p>3. Knowledge of how the organisation meets the requirements of the role of the chief financial officer, as required by the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.</p>	<ul style="list-style-type: none"> <li>Reviewing both external and internal audit recommendations relating to financial management and controls.</li> <li>The audit committee should consider the role of the CFO and how this is met when reviewing the AGS.</li> </ul>
<b>External audit</b>	<p>1. Knowledge of the role and functions of the external auditor and who currently undertakes this role.</p> <p>2. Knowledge of the key reports and assurances that external audit will provide.</p> <p>3. Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken.</p>	<ul style="list-style-type: none"> <li>The audit committee should meet with the external auditor regularly and receive their reports and opinions.</li> <li>Monitoring external audit recommendations and maximising benefit from 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>
<b>Risk management</b>	<p>1. Understanding of the principles of risk management, including linkage to good governance and decision making.</p> <p>2. Knowledge of the risk management policy and strategy of the organisation.</p> <p>3. Understanding of risk governance arrangements, including the role of members and of the audit committee.</p>	<ul style="list-style-type: none"> <li>In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces.</li> <li>Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans, and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee.</li> <li>The committee should also review reports and action plans to develop the application of risk management practice.</li> </ul>
<b>Counter-fraud</b>	<p>1. An understanding of the main areas of fraud risk the organisation is exposed to.</p> <p>2. Knowledge of the principles of good fraud risk management practice (Red Book 2).</p> <p>3. Knowledge of the organisation's arrangements for tackling fraud.</p>	<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>

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
<b>Values of good governance</b>	<ol style="list-style-type: none"> <li>1. Knowledge of the Seven Principles of Public Life.</li> <li>2. Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff.</li> <li>3. Knowledge of the whistleblowing arrangements in the authority.</li> </ol>	<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>
<b>Treasury management (if it is within the terms of reference of the committee to provide scrutiny)</b>	<ol style="list-style-type: none"> <li>1. Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are:           <ul style="list-style-type: none"> <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> </ol>	<ul style="list-style-type: none"> <li>• Treasury management is not within the terms of reference of the Audit Committee.</li> </ul>

### Specialist knowledge that adds value to the Audit Committee

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
<b>Accountancy</b>	<ol style="list-style-type: none"> <li>1. Professional qualification in accountancy.</li> </ol>	<ul style="list-style-type: none"> <li>• More able to engage with the review of the accounts and financial management issues coming before the committee.</li> <li>• Understanding the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues.</li> <li>• More able to engage with the external auditors and understand the results of audit work.</li> </ul>
<b>Internal audit</b>	<ol style="list-style-type: none"> <li>1. Professional qualification in internal audit.</li> </ol>	<ul style="list-style-type: none"> <li>• This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing.</li> <li>• The committee would be more able to provide oversight of internal audit and review the output of audit reports.</li> </ul>

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
<b>Risk management</b>	<ol style="list-style-type: none"> <li>2. Risk management qualification.</li> <li>3. Practical experience of applying risk management.</li> <li>4. Knowledge of risks and opportunities associated with major areas of activity.</li> </ol>	<ul style="list-style-type: none"> <li>• Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice.</li> <li>• Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers.</li> </ul>
<b>Governance and legal</b>	<ol style="list-style-type: none"> <li>1. Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law.</li> </ol>	<ul style="list-style-type: none"> <li>• Legal knowledge may add value when the committee considers areas of legal risk or governance issues.</li> </ul>
<b>Service knowledge relevant to the functions of the organisation</b>	<ol style="list-style-type: none"> <li>1. Direct experience of managing or working in a service area similar to that operated by the authority.</li> <li>2. Previous Scrutiny Committee experience.</li> </ol>	<ul style="list-style-type: none"> <li>• Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context.</li> </ul>
<b>Programme and project management</b>	<ol style="list-style-type: none"> <li>1. Project management qualifications or practical knowledge of project management principles.</li> </ol>	<ul style="list-style-type: none"> <li>• Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews.</li> </ul>
<b>IT systems and IT governance</b>	<ol style="list-style-type: none"> <li>1. Knowledge gained from management or development work in IT.</li> </ol>	<ul style="list-style-type: none"> <li>• Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls.</li> </ul>

## Core skills

Skills	Key elements	How the audit committee member is able to apply the skill
<b>Strategic thinking and understanding of materiality</b>	<ol style="list-style-type: none"> <li>1. Able to focus on material issues and overall position, rather than being side-tracked by detail.</li> </ol>	<ul style="list-style-type: none"> <li>• When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also contain more minor errors or control failures. The audit committee member will need pitch its review at an appropriate level to avoid spending too much time on detail.</li> </ul>
<b>Questioning and constructive challenge</b>	<ol style="list-style-type: none"> <li>1. Able to frame questions that draw out relevant facts and explanations.</li> <li>2. Challenging performance and seeking explanations while avoiding hostility or grandstanding.</li> </ol>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

Skills	Key elements	How the audit committee member is able to apply the skill
<b>Focus on improvement</b>	1. Ensuring there is a clear plan of action and allocation of responsibility.	<ul style="list-style-type: none"> <li>The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities.</li> <li>Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken.</li> </ul>
<b>Able to balance practicality against theory</b>	1. Able to understand the practical implications of recommendations to understand how they might work in practice.	<ul style="list-style-type: none"> <li>The audit committee should seek assurances that planned actions are practical and realistic.</li> </ul>
<b>Clear communication skills and focus on the needs of users</b>	1. Support the use of plain English in communications, avoiding jargon, acronyms, etc.	<ul style="list-style-type: none"> <li>The audit committee will seek to ensure that external documents such as the Annual Governance Statement and the explanatory foreword to the accounts are written for a non-expert audience.</li> </ul>
<b>Objectivity</b>	1. Evaluate information on the basis of evidence presented and avoiding bias or subjectivity.	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Meeting management skills</b>	1. Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting.	<ul style="list-style-type: none"> <li>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.</li> </ul>