

# CIPFA Survey on Local Authority and Police Audit Committees: Effectiveness

Briefing from the CIPFA Better Governance Forum

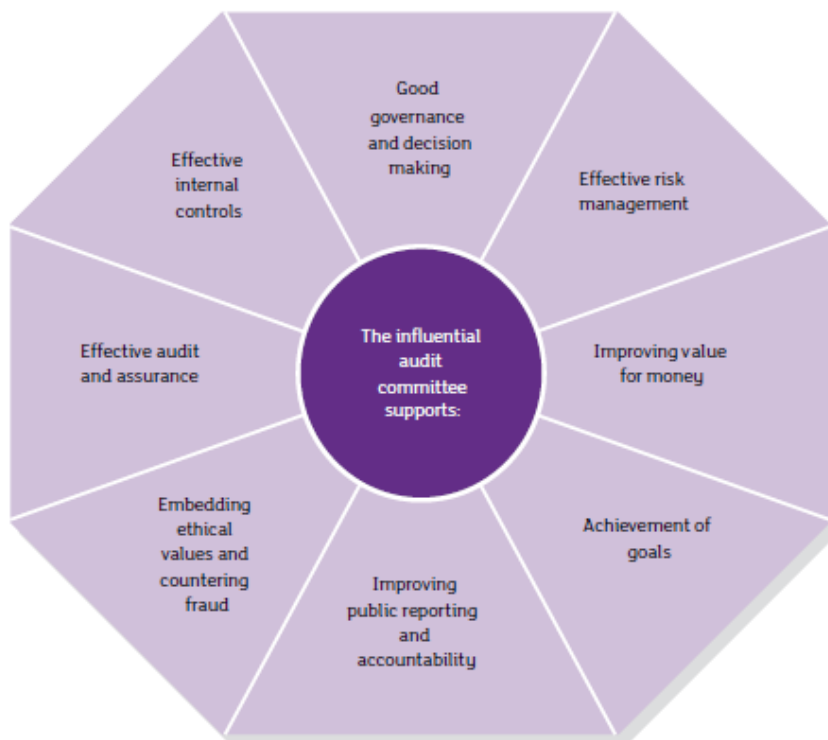
**November 2016**

This briefing contains results from the survey on the views on effectiveness of local authority and police audit committees. It is one of a series of briefings on the survey results, all of which are available to download from the CIPFA website.

## Assessing Effectiveness

The survey did not contain any metrics to identify the relative level of effectiveness of the committees. It asked for views of effectiveness from the differing perspectives of the audit committee chair and the head of internal audit (HIA) for the local authority or chief financial officer (CFO) for the police and crime commissioner (PCC). The results therefore depend on the perceptions of respondents, but they do enable us to draw conclusions on the activities of the committees and where they are most successful.

Audit committees add value to their organisations by supporting improvement and highlighting areas of concern. Their operations are typically focused on a range of objectives concerned with internal control, governance, risk and audit. In the CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013) this was demonstrated in the following diagram:



## Self-assessments

As part of the survey we asked how many audit committees had undertaken a self-assessment in the past year, either internally or externally facilitated. Few committees had had an external evaluation: 6% of local authorities and 5% of police. A much higher proportion had undertaken an internal self-evaluation however: 50% of local authorities and 68% of police. Such reviews should help organisations to evaluate the committee's success in fulfilling its terms of reference, meeting expectations and adding value.

Depending on the objectives of the review there are resources available to support self-assessment including the CIPFA publication. From the comments made it has assisted some organisations.

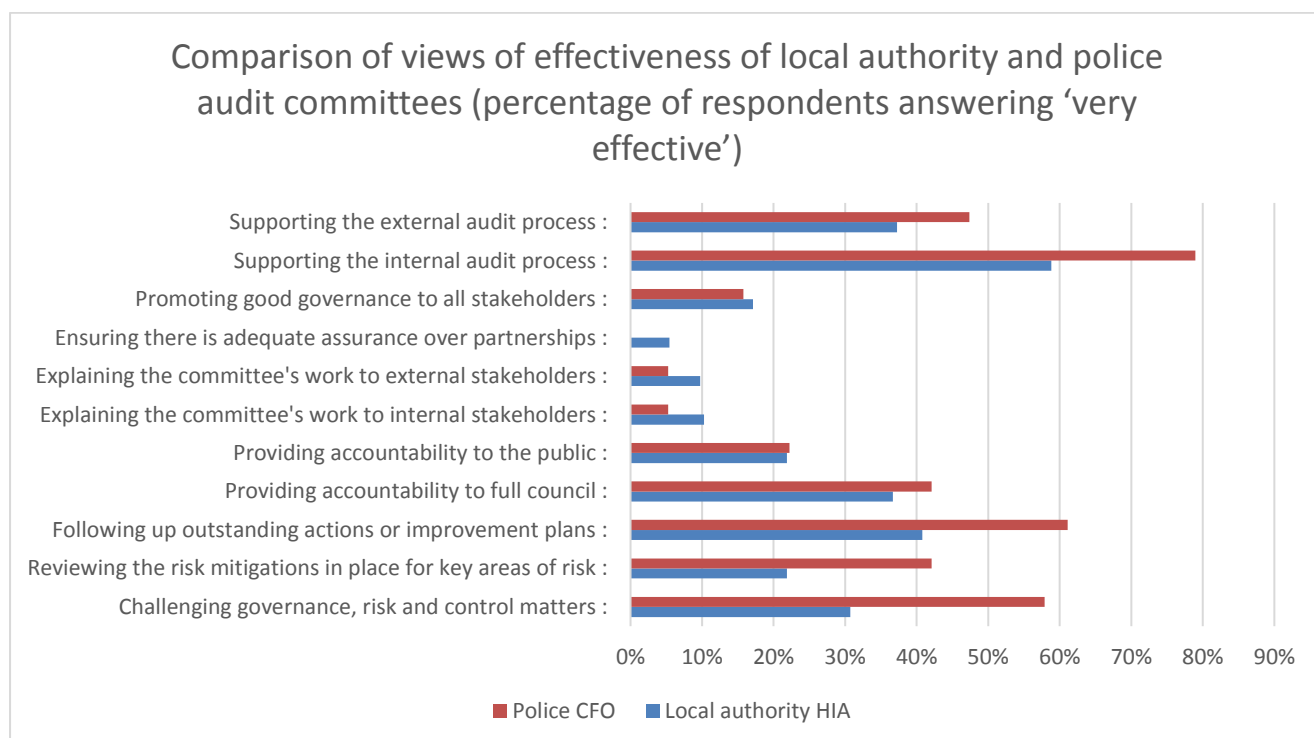
- *CIPFA guidance and the PSIAS are very helpful in persuading the organisation as to 'the art of the possible' and the roles that the audit committee, and audit team, can undertake on behalf of the organisation.*

Head of Internal Audit, English metropolitan district council

## Views on Effectiveness

We asked all respondents how effective they thought the audit committee was on a range of areas. This enabled us to contrast the views of the audit committee chairs with those of the HIA or CFO. For the HIA we were also able to compare the views with those from the 2011 survey which asked a similar question.

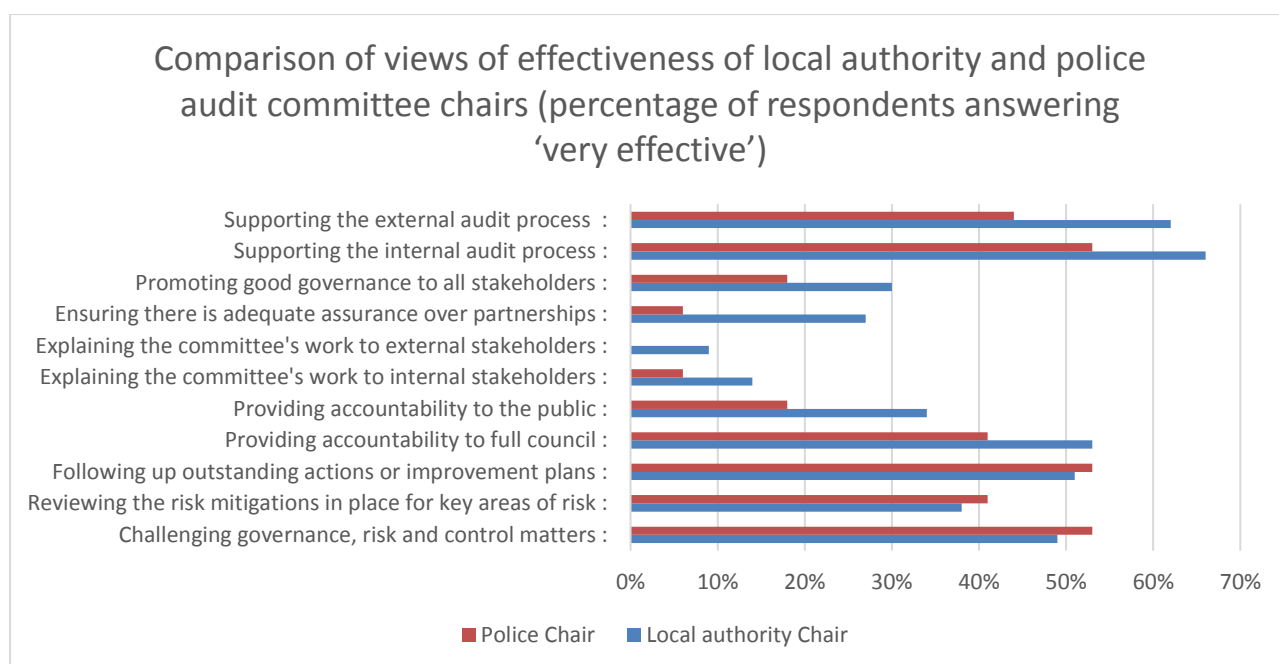
In the 2016 survey we can compare the views of effectiveness of police audit committees with local authority ones. Since the committees are constituted in very different ways, with the police committees having a membership of appointed independent members and local authority committees being primarily elected representatives, the survey presents a unique opportunity.



Based on the perceptions of key officers interacting with the audit committee, it would appear that police audit committees are more likely to be judged as “very effective” than local authority audit committees are.

In comparison to the local authority responses there is a similar profile of stronger and weaker areas, but overall the police audit committees seem to score more highly. One area where the police audit committee is considered to be more effective than the local authority equivalent is when reviewing the risk mitigations in place for key areas of risk. Twenty two percent of local authority HIAs scored this very effective. Forty two percent of police CFOs viewed their committees to be very effective.

There is not the same distinction between the views of chairs however. Local authority chairs are more positive than police chairs about their own effectiveness.



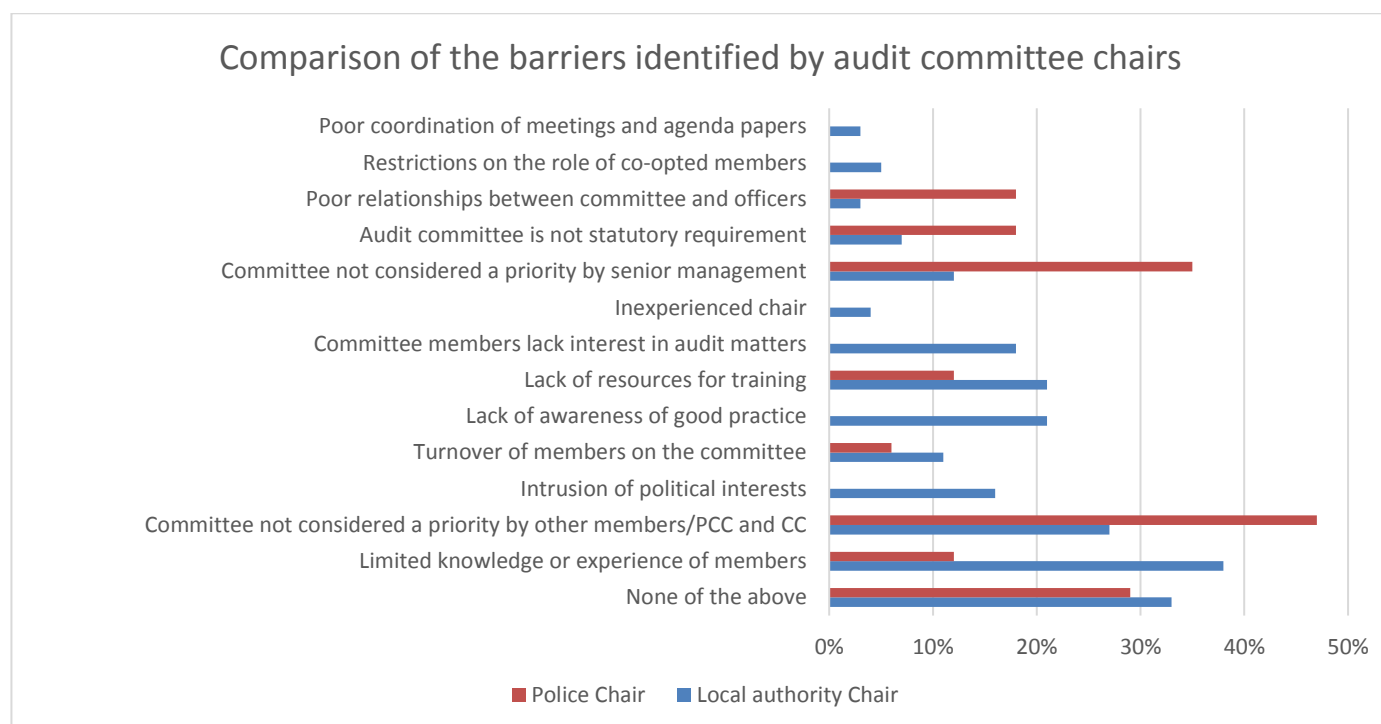
One possible explanation for the differing perception is that police audit committee chairs may have previous experience of audit committees in different sectors against which they can compare their experience of the police audit committee. The local authority chair may not have other experience.

## Barriers to Effectiveness

When comparing the responses to the question about barriers to effectiveness, local authority HIAs are far more likely to identify one or more barriers to the improvement of their audit committee than police CFOs.



We also asked the same question of the chairs of the committees. Here the results are not quite so stark, but fewer barriers are identified by police audit committee chairs. It should also be noted that the principal barriers for police are different to those of authority committees.



So, taking the evidence on views of effectiveness and barriers together, is there sufficient evidence to say that the police 'system' for audit committees is more effective than that of local authorities?

Before drawing any firm conclusions it is worth emphasising again that the survey can only collect the views of effectiveness, not hard evidence. Certainly the police approach does overcome the major barrier to effectiveness faced by local authority audit committees: the limited knowledge and experience of the membership. However the police committees are not without issues; a committee made up solely of independent members has the disadvantage of not being close to the organisation, and being less familiar with the new developments, challenges and approaches of that body.

It can also mean that relationships can be more difficult to establish and maintain. If we look at the barriers identified by police chairs they are not to do with knowledge and training but are around relationships and how the committee is positioned in relation to the PCC and chief constable. Certainly there appears to be some tension between the committee and senior managers or the PCC and chief constable in some committees.

- *The audit committee has limited/no power. Recommendations of committee to PCC and CC ignored. CC and PCC have little or no interest in the Committee – fail to attend meetings. Came to accounts meeting in the third year on the insistence of the committee.*

Police chair

- *The joint audit committee is not an audit committee in the normal sense in that it has no powers other than resignation en masse. Therefore everything has to be done by negotiation. This frustrates the committee members and all have indicated that they will only complete one term of office. Individuals with the requisite knowledge and understanding to fulfil the role do not wish to have responsibility without power. The remuneration is poor for the responsibility involved.*

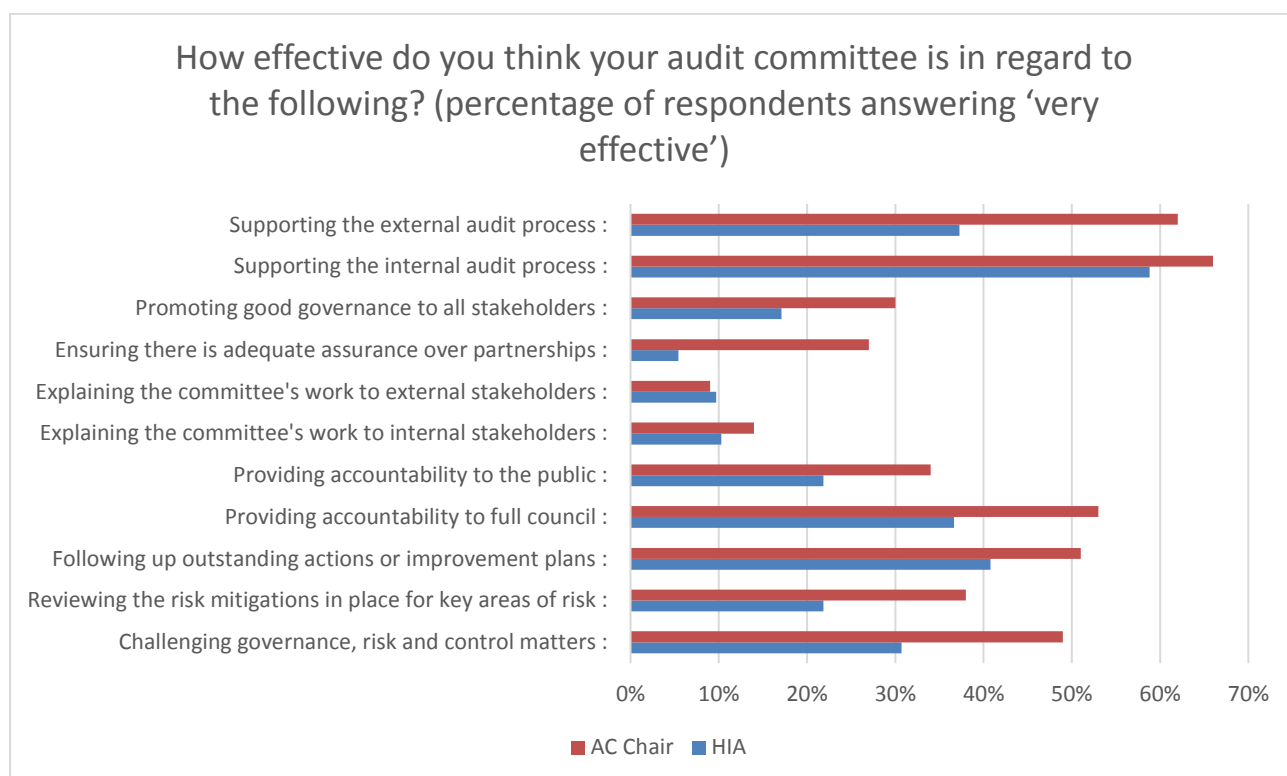
Police chair

- *An issue we have is that the Executive has been resistant to our receiving information in a timely manner. Key decisions are taken and we are informed as an afterthought, beyond the point at which any advice could be said to be useful. During the last year it has been particularly difficult to develop/maintain a productive working relationship with the PCC and the Chief Constable.*

Police chair

Overall there are disadvantages as well as advantages of an audit committee consisting solely of independent members. To take full advantage of their knowledge and experience, care should be taken to develop relationships and ensure good communication. Equally, committee members do need to understand the specific requirements of the sector and where the committee needs to operate in a different way to other audit committees that the members may have experience of.

## A Detailed Look at the Local Authority Results



In almost every indicator the view of the chair was more positive than the view of the HIA, markedly so in some cases. This might indicate that chairs are perhaps over-confident about the success of their committees. Even so there are very good results here. Fifty nine percent of HIAs said that their audit committee was "very effective" in supporting the internal audit process and a further 37% said they were "quite effective". Forty one percent of HIAs considered that the committee was "very effective" in following up on outstanding actions and improvement plans with a further 49% considering them to be "quite effective". From comments made some HIAs were very positive about the support they received from the audit committee:

- The support from the audit committee is first class and it is difficult to identify how it could better support the work of internal audit. The committee is focused on addressing control issues and making a difference in terms of how the Council ensures that it provides value for money.*

Head of internal audit, English unitary council

One area where there was quite a big gap in the perceptions of the HIA and the chair was in response to 'Challenging governance risk and controls matters'. Thirty one percent of HIAs judged their committees to be "very effective" against 49% of chairs. Several HIAs made comments that this is an area where they would like to see an improvement.

- The committee is very good at calling managers to account but does not always use the full range of questioning skills to establish and challenge them to the level of detail required to explore fully the responses provided. It is getting the balance right between examining the facts in a way to engage and inform the officers,*

*without feeling that they are publically intimidating or embarrassing the managers. When the committee are challenging the managers directly, they sometimes turn to the auditor to provide the assurances to them over systems instead of drilling down more with their questions to the manager.*

Head of internal audit, English unitary council

- *Support and understanding is pretty good. However there is always scope to challenge management more about the issues IA might have reported and certainly over the timely implementation of recommendations.*

Head of internal audit, English metropolitan district council

One of the weaker areas was in relation to providing assurance over partnership arrangements. In comparison to the 2011 survey there appears to have been only a small improvement, although collaborative working and shared services have expanded considerably in the sector.

**Percentage of heads of audit viewing their committee as effective in ensuring there is adequate assurance over partnerships:**

	<b>Very effective</b>	<b>Quite effective</b>
2011 heads of audit respondents	3%	23%
2016 heads of audit respondents	5%	31%

Explaining the work of the committee both internally and externally did not score very highly either. We did not ask this question in 2011 so it is not possible to compare the answers. Some audit committees do not have a high profile within the council and councillors who are not involved with the committee may have little understanding or knowledge of its work. Similarly managers may not understand its contribution either.

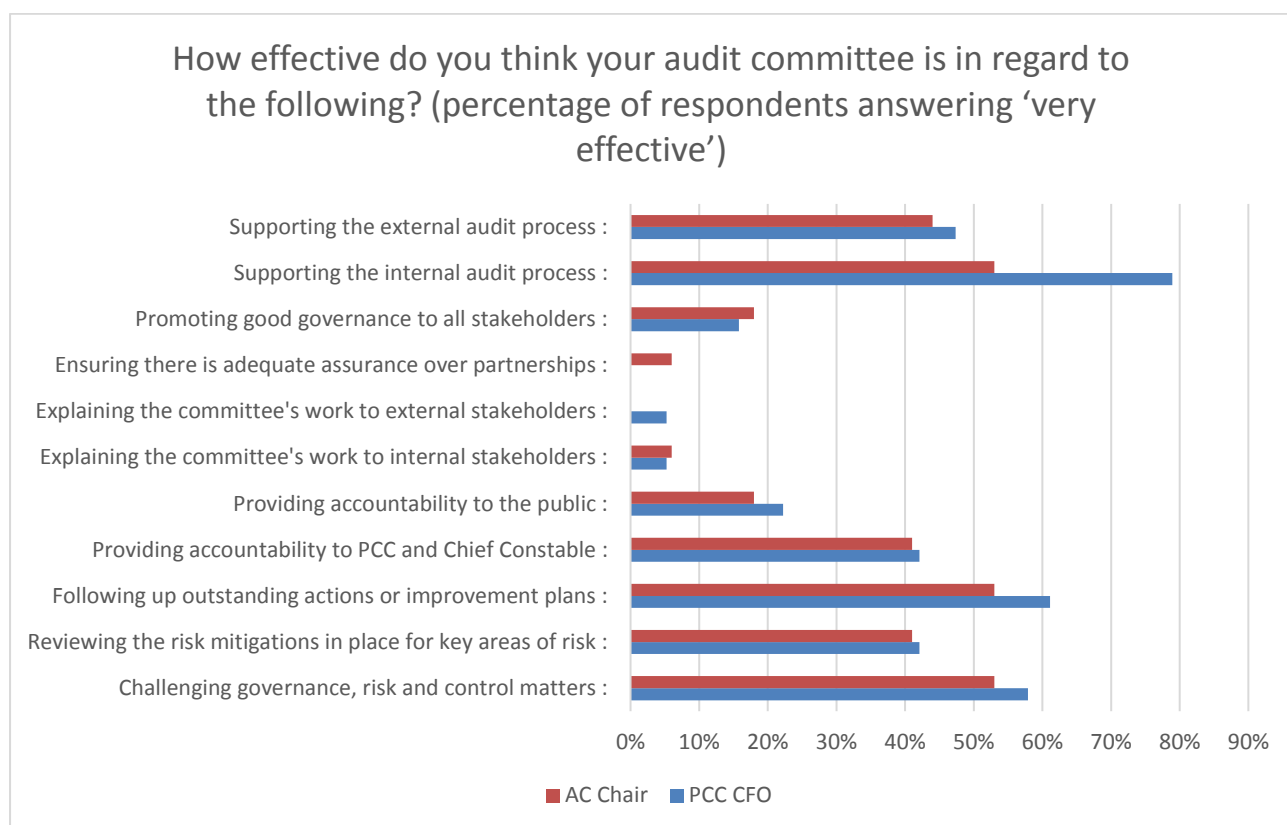
- *Attendance is not always as good as it might be. Very few Members who are not members of the Committee attend and, rarely, members of the public.*

Chair, English district council

In the private sector there has been a push to improve the reporting by the audit committee on its activities. Since the Financial Reporting Council's [Guidance on Audit Committees](#) was updated in 2012, audit committees of larger companies should include an explanation of their work in the annual report, specifically covering the significant issues in the financial statements they covered, the effectiveness of the external audit process and how objectivity and independence of external audit are safeguarded in relation to non-audit work. In comparison there is less regulation impacting on local authority audit committees, although all are recommended to make an annual report in the CIPFA guidance.

In the survey we did ask whether committees had produced an annual report available to the public. Thirty five percent of HIAs in local authorities said they had and 53% of police CFOs had. The adoption of this practice by all audit committees would help the committee to explain its work to both internal and external stakeholders.

## A Detailed Look at the Police Results



Overall the views expressed by the CFO and the audit committee chairs coincide well. Whereas the local authority chairs tended to be more positive in their responses than the HIAs, police chairs tended to be slightly less positive than the CFOs in response to several areas.

In only one area was there a very significant difference between chairs and CFOs: the effectiveness of the support provided to internal audit.

	<b>Very effective</b>	<b>Quite effective</b>
CFO respondents	79%	21%
Chair respondents	53%	47%

Clearly chairs considered there was some room for improvement, perhaps reflecting the committee members' wider experience of internal audit and audit committees in other settings.

A high level of effectiveness was also identified for following up action plans and for challenging governance risk and control matters. Over 40% of both groups also viewed the committee as very effective in regards to reviewing risk mitigations and providing accountability to the PCC and Chief Constable.

Partnership assurance did not score so highly. The table below shows the percentage of respondents viewing the committee as either very effective or quite effective in this area.



	<b>Very effective</b>	<b>Quite effective</b>
CFO respondents	0%	33%
Chair respondents	6%	53%

Given the increasing profile of collaboration both with other forces and with other public bodies, with fire authorities in particular, this area perhaps requires further consideration at the local level.

Explaining the work of the committee and providing accountability to the public were also lower scoring, similar to the local authority profile. As already noted, 53% of police CFOs said that the committee had produced an annual report to the public. While this is already a higher percentage than local authority committees, there is still room for improvement.

## Conclusions

Measuring effectiveness is not an exact science. Seeking views of those who lead audit committees and who work closely with them does give us an insight however into their relative strengths and weaknesses. At the local level it is beneficial for audit committees to review their own effectiveness and to seek feedback from those interacting with the committee. The CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013) recommends that the committee should evaluate its performance and seek feedback. The data from this survey can be used to feed into such an evaluation.

Comparing the views on effectiveness of police and local authority committees highlights the influence of the differing compositions of the committees. Access to independent members has helped the police audit committees to be more effective within a relatively short time period. However this approach, together with their advisory role, has thrown up some problems around relationships, communications and attitudes which will need to be addressed.

## Recommendations

1. All audit committees should review their performance and seek feedback from those who regularly work with the committee or rely on its assurances.
2. Audit committees should identify any barriers to improving their effectiveness and seek to address them.
3. Those committees that do not already do so should consider producing an annual report to explain their role and demonstrate the value they have added.
4. All audit committees should ensure that they have a clear and accessible statement on the website that explains their role and helps stakeholders to understand their work and contribution.

Further briefings on the results of the audit committee survey are available to download from the CIPFA website. The recommendations in these briefings should be read alongside those above:

- Commentary and Executive Summary, CIPFA Survey on Local Authority and Police Audit Committees
- CIPFA Survey on Local Authority Audit Committees

- CIPFA Survey on Police Audit Committees
- Training and Support for Local Authority and Police Audit Committees
- Internal Audit and Audit Committees in Local Authorities and Police.

If you have any questions about the Better Governance Forum, our resources or future developments please do not hesitate to contact me.

Diana Melville

Governance Advisor, CIPFA

E: [diana.melville@cipfa.org](mailto:diana.melville@cipfa.org)

T: 01722 349398      Twitter:      @DianaMelville