



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 9 December 2021 10 am	 <u>Public</u>

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

Responsible Officer

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1. Synopsis

Effective audit committees bring many benefits to an organisation. To ensure that the Council continues to provide an effective Audit Committee their Terms of Reference are considered and approved by members annually. There are no significant changes proposed in 2021.

2. Executive Summary

The Audit Committee's Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in their: Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition. The Terms of Reference are attached as an **Appendix** and are reviewed each year. Slight changes have been made to reflect current reporting titles and to further clarify the responsibilities of the Audit Committee in relation to approving the Statement of Accounts, but there are no significant changes proposed. Suggested changes are underlined and shown in bold italics.

3. Recommendations

- 3.1. Members are asked to consider the revised Audit Committee Terms of Reference attached, provide appropriate comment and approve or otherwise the proposed amendments.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. Audit Committee terms of reference are reviewed annually to ensure that they are fit for purpose and up to date. They clarify the role of the Audit Committee and ensure that the Council has robust internal control arrangements in place.
- 4.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

5. Financial Implications

- 5.1. There are no financial implications.

6. Climate Change Appraisal

- 6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting and mitigation; or on climate change adaption. Therefore, no effect to report.

7. Background

- 7.1. Part of the responsibility of this Committee is to review annually its Terms of Reference, making any recommendations for significant changes in them to Full Council.
- 7.2. The Chartered Institute of Public Finance and Accountancy (CIPFA); defines the purpose of an audit committee as being to provide those charged with governance an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. By doing this and overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 7.3. The Audit Committee satisfies the wider requirement for sound financial management, as set out in the Accounts and Audit Regulations, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, Section 151 of the Local Government Act 1972 requires the Council to, 'make arrangements for the proper administration of its financial affairs'. In discharging

sound financial management, the Section 151 Officer requires an effective audit committee and an internal audit service which evaluates the effectiveness of its risk management, control and governance processes. Both elements are enshrined in the Public Sector Internal Audit Standards and the supporting Local Government Application Note.

7.4. Effective audit committees bring many benefits to the Council. They can:

- Increase public confidence in the objectivity and fairness of financial and other reporting.
- Reduce the risk of illegal or improper acts.
- Reinforce the importance and independence of internal and external audit and any other review processes that report to the Committee.
- Provide a sharper focus on financial reporting, both during the year and at year end, leading to increased confidence in the objectivity and fairness of financial reporting.
- Assist the co-ordination of sources of assurance and, in so doing, make management more accountable.
- Provide additional assurance through a process of independent and objective review.
- Raise awareness of the need for internal control and the implementation of audit recommendations.

7.5. It is therefore important that the Terms of Reference are reviewed to ensure that best practice guidance is incorporated.

8. Additional Information

8.1. At Council, on the 24th September 2020, the Audit Committee was given responsibility for approving the Final Accounts Pack including the Statement of Accounts for the financial year 2019/20 onwards. To accommodate this, detailed changes were proposed and accepted for the Constitution, these were reflected in the Audit Committee's Terms of Reference. In addition, reflecting on these changes and the current responsibilities of the Committee the following proposed adjustments are suggested for paragraph: -

- 43, to reflect the ability of Audit Committee to escalate concerns to Council.
- 44, to update the reports received from External Audit.
- 45, to fully reflect the delegated powers the Committee was awarded in the previous year in respect of approving the Statement of Accounts when required.

The relevant text is in ***bold, italics and underlined***.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition

TIS Online CIPFA Audit Committee

Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards, CIPFA 2019

Local Government Act 1972

Accounts and Audit (England) Regulations

Council 24th September 2020 Report 9, Review of the Constitution to permit the Audit Committee to approve the Final Accounts pack including the Annual Statement of Accounts

Cabinet Member (Portfolio Holder)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member N/A

Appendices

Audit Committee Terms of Reference

AUDIT COMMITTEE TERMS OF REFERENCE

Membership

1. The Audit Committee must remain apolitical. It must display unbiased attitudes, treating auditors, the executive and management equally. It can also challenge the Leader and the Head of Paid Service when required. The Audit Committee will comprise:
 - a) Five Members in accordance with the current political balance rules who may be represented by designated substitutes in their absence. Any designated substitute must be appropriately trained. None of the Members should be Members of the Executive, Scrutiny Chairs or Vice Chairs.
 - b) Normally the Section 151 Officer and the Head of Audit will attend every meeting. Should the Section 151 Officer feel there is an item on the agenda which would benefit from the Leader's presence, or the presence of a Portfolio Holder, the Chairman of the Audit Committee would be informed and he could invite the Leader or Portfolio Holder to attend.
2. The Committee has the option to recruit a suitably qualified independent member where there is an identifiable benefit.
3. There will be a standing invitation to the External Auditor to attend all meetings and they should attend the Audit Committee at least twice a year to report on the findings of the audit of the Council.
4. Members should champion sound internal controls including standards and ethics.

Meetings

5. The Audit Committee will meet at least four times a year. The Chairman of the Audit Committee may convene additional meetings as they deem necessary.
6. The Head of the Paid Service, the Section 151 Officer, or the Head of Audit may ask the Audit Committee to convene further meetings to discuss issues on which they want the Committee's advice.
7. The Audit Committee, Head of Audit and External Audit have the opportunity for private discussions without the Section 151 Officer or other executive directors being present if issues need exploring in this forum.

8. The Monitoring Officer is responsible for ensuring the Audit Committee is serviced with all necessary papers and support to enable it to fully discharge its responsibilities.

CORE FUNCTIONS

Governance risk and control

9. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
10. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and assurances on how effectively the Seven Principles of Public Life are supported¹.
11. To consider the Council's arrangements for securing value for money, supporting standards and ethics and review assurances and assessments on the effectiveness of these arrangements.
12. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
13. To monitor the effective development and operation of risk management in the Council.
14. To monitor progress in addressing risk-related issues reported to the committee; Seek assurances that action is taken by management in risk related issues identified by auditors and inspectors; Resolve any outstanding differences between internal and external auditors and management when action or major recommendations have not been agreed.
15. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
16. To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
17. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

¹ <https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2>

18. To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

19. To approve the Internal Audit Charter incorporating the mission, code of ethics, definition and core principles of Internal Audit.
20. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
21. To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
22. To approve significant interim changes to the risk based internal audit plan and resource requirements, including approval of significant additional consulting services.
23. To make appropriate enquiries of both management and the Head of Audit to determine if there are any inappropriate scope or resource limitations.
24. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of Internal Auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.
25. To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include:
 - a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand following Internal Audit work.
 - b) Reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement.
26. To consider the Head of Audit's annual report, specifically:

- a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
 - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- 27. To consider summaries of specific internal audit reports as requested.
 - 28. To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.
 - 29. To contribute to the Quality Assurance and Improvement Programme and to the external quality assessment of Internal Audit that takes place at least once every five years.
 - 30. To support the development of effective communication with the Head of Audit.

External Audit

- 31. To support the independence of the External Auditor through consideration of the External Auditor's annual assessment of its independence and review of any issues raised by the Public-Sector Audit Appointments (PSAA); consider and comment on the selection and rotation of the External Auditor.
- 32. To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
- 33. To consider specific reports as agreed with the External Auditor and other inspection agencies.
- 34. To support the quality and effectiveness of the external audit process and to comment on the scope and depth of external audit work to ensure it gives value for money and complies with ethical standards.
- 35. To commission additional work from external audit as required.

36. To review and advise on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

Financial reporting

37. 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. When required, to approve the Annual Statement of Accounts
38. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury Management

39. To consider the robustness of the Council's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
40. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity².
41. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management in accordance with best practice.

Accountability Arrangements

42. To publish an annual report on the work of the Committee by reporting annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements.
43. To report to Council where the Audit Committee **wish to raise concerns within their remit**, have added value, improved or promoted the control environment and performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.

² Clause 3 Treasury Management Code of Practice

Work plan

44. In carrying out the core functions the Audit Committee will approve an annual work plan. This will enable members to consider, review and, as appropriate, approve: -
- a) An annual review of the Terms of Reference for the Audit Committee, making any recommendations for significant changes in them to Full Council.
 - b) Any proposals for the revision of the Internal Audit Charter.
 - c) The Head of Audit's Annual Report and opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
 - d) Regular performance reports on the work completed by Internal Audit and the progress made by directorates in implementing recommended actions.
 - e) Revisions to the annual audit plan as advised by the Head of Audit and agreed by the Section 151 Officer.
 - f) The Council's Statement of Accounts when required or before submission to Full Council for such approval.
 - g) A report on the review of the adequacy of the Council's corporate governance arrangements.
 - h) A report on the Internal Audit system and ongoing Quality Assurance and Improvement Programme.
 - i) A report on the strategic risks of the Council and a review of the adequacy of the Council's risk management arrangements.
 - j) The Council's Annual Governance Statement.
 - k) The External Auditor's work plan, including comments on the scope and depth of external audit work to ensure it gives value for money.
 - l) The External Auditor's **Progress and Findings; and Annual Reports** Management Letter The Annual **Audit Letter** from the External Auditor following completion of the annual audit of the Accounts.
 - m) Reports on any joint projects undertaken by Internal and External Audit.

- n) Reports on Internal Audit investigations including frauds and consideration of recommendations for strengthening internal controls.
- o) The annual review and re-affirmation of the Council's Counter Fraud, Bribery and Anti-Corruption Strategy to ensure on-going training and awareness of all staff regarding Counter Fraud and Anti-Corruption measures.
- p) Any issues within the remit of the Audit Committee referred to it by the Head of the Paid Service, the Section 151 Officer, Monitoring Officer or any Council body for determination.
- q) Treasury Strategy Reports including the Annual Investment Strategy and Minimum Revenue Provision Policy before submission to Full Council.
- r) The mid-year Treasury Strategy Report and Annual Treasury Report before submission to Full Council.

Powers of the Audit Committee

45. The Committee will have no delegated powers, **other than those assigned from Council to approve the Statement of Accounts when required**, but can require relevant officers, members and agencies to attend at any meeting where such attendance would be expedient to the work of the Committee.

Audit Committee Competency Framework

46. All Members of the Audit Committee should have, or acquire as soon as possible after appointment: -
- a) An understanding of the objectives and current significant issues facing the Council.
 - b) An understanding of the Council's structure including key relationships with external partner organisations.
 - c) An understanding of any relevant legislation or other rules governing the operation of the Council.
 - d) A broad understanding of the local government environment, its accountability structures and current, major initiatives.
47. CIPFA recommends that the Audit Committee should corporately possess an appropriate level of knowledge/skills/experience in: -
- a) The Council's governance and regulatory frameworks.

- b) Understanding of the wider governance environment in which the Council operates and the accountability structures within that environment.
- c) Financial management and accounting including accounting concepts and standards.
- d) Risk management.
- e) Audit.
- f) Counter fraud.
- g) Treasury management.

And that the Committee should receive appropriate levels of training.

Reviewed November 2021.