Committee	**Audit and Governance Committee** **25th September 2026** **Public**

Annual Review of the Audit and Governance Committee's Terms of Reference

Cabinet Member:	Councillor Roger Evans – Portfolio Holder for Finance
Lead Director:	Duncan Whitfield – Section 151 Officer
Service Area:	Internal Audit
Report Author	Duncan Whitfield – Section 151 Officer
Officer contact details	Duncan.Whitfield@shropshire.gov.uk
Electoral Divisions Affected	All
Key Decision?	Non Key
Cabinet Forward Plan	Not applicable
Report considered by	Not applicable

1. Purpose of Report

1.1. The purpose of this report is to support the Audit and Governance Committee in reviewing and confirming the continued appropriateness of its Terms of Reference. This includes ensuring that the Committee's role, responsibilities and authority remain aligned with relevant legislation, guidance and best practice, and are sufficient to enable effective oversight of the Council's governance, risk management and internal control framework. The annual review provides an opportunity to reflect any changes in regulatory requirements or organisational arrangements, and to recommend updates where necessary to ensure the Committee can continue to discharge its responsibilities effectively.

2. Recommendations

2.1. The Committee is asked to:

- Consider the Audit and Governance Committee Terms of Reference attached at **Appendix A**, comment as appropriate, and agree the proposed amendments.

- Refer the updated Terms of Reference to Council for approval.

3. Background

3.1. 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.

3.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines the purpose of an Audit Committee as providing those charged with governance with an independent and high-level focus on the adequacy of governance, risk and control arrangements. By doing this and overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

3.3. The Council's Audit and Governance 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 includes the arrangements for the management of risk.'

3.4. 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 Global Internal Audit Standards and the supporting Local Government Application Note.

3.5. 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.

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

4. Summary of Main Proposals

4.1. The Audit and Governance 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 2022 Edition.

4.2. The annual review has considered the Committee's Terms of Reference against relevant legislation, CIPFA guidance, the Global Internal Audit Standards and the Local Government Application Note. The review confirms that the Terms of Reference remain fit for purpose and continue to provide an appropriate framework for the Committee's oversight of governance, risk management, internal control, audit and financial reporting. Amendments have been made to clarify the committee's role in some aspects of the governance framework. The Terms of Reference have also been updated to reflect anticipated legislative changes relating to the appointment of an independent member requirements as part of English devolution and community engagement legislation. All changes proposed are shown in bold, italic and underlined text.

4.3. Following the resignation of the previous independent member in January 2026, the Council intends to commence recruitment shortly to appoint a suitably qualified replacement. Any appointment made through the appropriate governance route. The Section 151 Officer has delegated authority to appoint to this position.

5. Alternative Options

5.1. The alternative option would be not to review or update the Terms of Reference. This could increase the risk that the Committee's responsibilities become outdated or misaligned with current legislation, professional guidance and good governance practice.

6. Key Risks and Opportunities

6.1. The annual review of the Audit and Governance Committee's Terms of Reference supports the Council's risk management framework by ensuring that the Committee's oversight responsibilities for risk, control and governance remain clear, robust and aligned to best practice. By confirming the Committee's role in scrutinising risk management arrangements, the review helps ensure that key risks are identified, assessed and appropriately managed across the organisation.

Risk	Mitigation	Link to Strategic Risk
Terms of Reference become outdated or misaligned with legislation/guidance.	Annual review against CIPFA guidance, GIAS and the Local Government Application Note.	Governance, assurance and value for money.
Committee oversight is weakened because responsibilities are unclear.	Clear Terms of Reference setting out remit, responsibilities and reporting lines.	Governance, assurance and value for money.

Risk	Mitigation	Link to Strategic Risk
Any significant changes are not referred through the correct governance route.	Any significant changes to be referred to Full Council for approval.	Governance, assurance and value for money.
Independent Member vacancy reduces independence and objectivity within the Audit Committee.	Undertake recruitment to appoint to the Independent Member role and consider expanding the Committee terms of reference to include two members in line with CIPFA's recommended best practice.	Governance, assurance and value for money.
The Independent Member vacancy may reduce the Committee's access to specialist skills, knowledge and independent expertise	Recruit an independent member to supplement the Committee's collective skills base and support this with a structured induction and ongoing training programme for all members. Review outcomes of Audit Committee self assessment of effectiveness and skills evaluation against CIPFA's best practice guidance.	Governance, assurance and value for money.

6.2. The annual review of the Committee's terms of reference also presents an opportunity to strengthen oversight arrangements, enhance the effectiveness of risk reporting and embed a more proactive, risk-aware culture, supporting improved decision-making and the Council's overall governance and organisational resilience.

6.3. There is also an opportunity to consider, as part of future governance development, whether the Committee's membership arrangements should be amended to include two suitably qualified independent members with relevant expertise in audit, finance, governance or risk, in line with CIPFA's recommended best practice.

7. Council Priorities

7.1. The annual review of the Audit and Governance Committee's Terms of Reference supports the delivery of the Council's Corporate Plan 2026–2030 by ensuring that the Committee's role, responsibilities and oversight arrangements remain effective in underpinning strong governance, financial sustainability and organisational improvement. By confirming that the Committee is appropriately constituted and aligned with best practice, the review helps ensure that robust challenge, assurance and accountability arrangements are in place to support effective decision-making, the efficient use of resources and the management of risk, thereby contributing to the Council's ambition to operate as a sustainable, resilient and well-governed organisation.

8. Financial Implications

8.1. The annual review of the Audit and Governance Committee’s Terms of Reference does not in itself give rise to direct financial implications; however, it supports the effective oversight of the Council’s financial governance arrangements. By ensuring that the Committee’s roles and responsibilities remain clearly defined and aligned to best practice, the review helps strengthen scrutiny of financial management, risk and control, contributing to the safeguarding of public funds, the efficient use of resources and the Council’s wider objective of achieving financial sustainability.

8.2. There are no direct financial implications arising from the annual review itself. However, the appointment of an independent member may give rise to costs associated with any agreed allowance or remuneration, recruitment, training and induction, equipment, and system access.

9. Legal and HR implications

9.1. The annual review of the Audit and Governance Committee’s Terms of Reference does not in itself give rise to direct legal or human resource implications; however, it supports the Council’s compliance with statutory requirements and recognised governance standards. By ensuring that the Committee’s responsibilities are clearly defined, appropriately delegated and aligned with relevant legislation and guidance, the review helps maintain effective oversight of legal compliance and employment-related risks. This, in turn, supports the Council in meeting its statutory duties, managing workforce-related matters appropriately, and reducing the risk of legal challenge or non-compliance.

9.2. The legal position should be confirmed by Legal Services once the final statutory requirements and commencement arrangements are clear regarding English devolution and community engagement legislation.

10. Electoral Division Implications

10.1. There are no direct electoral division implications arising from the review of the Audit and Governance Committee’s Terms of Reference, as it relates to the Council’s corporate governance arrangements rather than service delivery within specific geographic areas. However, maintaining clear and effective Terms of Reference supports robust oversight, transparency and accountability across all Council activities, which underpin consistent service provision and outcomes for residents in all electoral divisions.

11. Health, Social (including “Child Friendly Shropshire”) and Economic Implications

11.1. There are no direct health, social or economic implications arising from the review of the Audit and Governance Committee’s Terms of Reference; however, the Committee’s role in overseeing governance, risk management and internal control supports the Council’s wider Health in All Policies approach. By ensuring robust scrutiny and effective decision-making arrangements, the Committee helps promote the efficient use of resources, the delivery of sustainable services and the management of risks that may impact on the health, wellbeing and economic outcomes of Shropshire's communities.

12. Equality and Diversity Implications

12.1. There are no direct equality and diversity implications arising from the review of the Audit and Governance Committee's Terms of Reference; however, the review supports the Council's commitment to equality, inclusion and fair decision-making. By ensuring that the Committee's governance, scrutiny and assurance role remains clear and effective, it helps provide oversight of arrangements that promote compliance with equality legislation, consistent application of policies and equitable outcomes across all services, thereby contributing to an inclusive and well-governed organisation.

13. Climate Change, Biodiversity and Environmental Implications

13.1. There are no direct climate change, biodiversity or environmental implications arising from the review of the Audit and Governance Committee's Terms of Reference; however, the review supports the Council's wider governance framework, which includes oversight of environmental risks, sustainability commitments and compliance with relevant legislation and strategies. By ensuring the Committee's responsibilities remain clear and effective, it contributes to robust scrutiny of how the Council manages climate-related risks and environmental impacts, supporting its ambition to operate in a sustainable and responsible manner.

14. Background Papers

14.1. Annual Review of Audit and Governance Committee Terms of Reference, Audit and Governance Committee, 26 September 2025
14.2. Chartered Institute of Public Finance and Accountancy (CIPFA), Audit Committees: Practical Guidance for Local Authorities and Police, 2022 Edition
14.3. Global Internal Audit Standards (Institute of Internal Auditors 2024)
14.4. Local Government Application Note for the United Kingdom Global Internal Audit Standards, CIPFA 2025
14.5. Local Government Act 1972
14.6. The Accounts and Audit Regulations 2015 (as amended)
14.7. Council's Corporate Plan 2026–2030

15. Appendices

Appendix A – Audit and Governance Committee Terms of Reference

APPENDIX A

AUDIT AND GOVERNANCE COMMITTEE TERMS OF REFERENCE

Purpose

1. ***The Chartered Institute of Public Finance and Accountancy (CIPFA) defines the purpose of an Audit Committee as providing those charged with governance with an independent and high-level focus on the adequacy of governance, risk and control arrangements. By doing this and overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.***

2. ***The Council's Audit and Governance 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 includes the arrangements for the management of risk.'***

3. ***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 Global Internal Audit Standards and the supporting Local Government Application Note.***

Membership

4. ***The Audit and Governance Committee should act independently, avoid conflicts of interest, and provide objective challenge in the interests of good governance.*** 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 and Governance Committee will comprise:

   a) Nine 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) ***The Section 151 Officer and the Chief Audit Executive (CAE)[1] or nominated deputy will attend every meeting. Executive Directors or Leadership Board Directors will attend regularly for key governance, risk, Annual Governance Statement (AGS) or major assurance items.*** In addition, should

[1] CAE is the Head of Policy and Governance

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 Chair of the Audit and Governance Committee would be informed and they could invite the Leader or Portfolio Holder to attend.

5. ***The Committee will appoint an independent member in line with the requirements of the English Devolution and Community Engagement Act 2026 legislation.***

6. There will be a standing invitation to the External Auditor to attend all meetings and they should attend the Audit and Governance Committee at least twice a year to report on the findings of the audit of the Council.

7. Members should champion sound internal controls including standards and ethics.

Meetings

8. The Audit and Governance Committee will meet at least four times a year. The Chairman of the Audit and Governance Committee may convene additional meetings as they deem necessary.

9. The Head of the Paid Service, the Section 151 Officer, or the CAE may ask the Audit and Governance Committee to convene further meetings to discuss issues on which they want the Committee's advice.

10. The Audit and Governance Committee, CAE 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.

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

CORE FUNCTIONS

Governance Risk and Control

12. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

13. 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 supported[2].

14. ***To review arrangements for standards, ethical governance and the Seven Principles of Public Life.***

15. 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.

16. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.

17. To monitor the effective development and operation of risk management in the Council.

18. ***To monitor progress in addressing risk-related issues reported to the committee:***

    a) ***reviewing the risk management framework;***

    b) ***monitoring strategic risk arrangements;***

    c) ***seeking assurance on risk-related actions;***

    d) ***escalating unresolved significant risks.***

19. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

20. To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.

21. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

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

---

[2] https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2

Internal Audit

23. To approve the Internal Audit Charter ***and Mandate*** incorporating ***the internal audit function's purpose, mandate, organisational position, reporting lines, and scope of work.***

24. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

25. 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.

26. To approve significant interim changes to the risk based internal audit plan and resource requirements, including approval of significant additional consulting services.

27. To make appropriate enquiries of both management and the CAE to determine if there are any inappropriate scope or resource limitations.

28. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of Internal Auditing of the CAE. To approve and periodically review safeguards to limit such impairments.

29. To consider reports from the CAE 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 Global Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement.

30. To consider the CAE's annual report, specifically:

    a) The statement of the level of conformance with the Global 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.

31. To consider summaries of specific internal audit reports as requested.

32. To receive reports outlining the action taken where the CAE 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.

33. 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.

34. To support the development of effective communication with the CAE.

External Audit

35. 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.

36. To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.

37. To consider specific reports as agreed with the External Auditor and other inspection agencies.

38. 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.

39. To commission additional work from external audit as required.

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

Financial Reporting

41. To review and if necessary, approve 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

42. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury Management

43. 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.

44. 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 activity[3].

45. 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

46. ***The Committee is accountable to Full Council for its work and the Committee's annual report should include an assessment of impact, effectiveness and any areas requiring council attention.***

47. 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.

48. To report to Council where the Audit and Governance 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.

Work Plan

49. In carrying out the core functions the Audit and Governance 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 and Governance Committee, making any recommendations for significant changes in them to Full Council.

b) Any proposals for the revision of the Internal Audit Charter ***and Mandate***.

c) The CAE'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 CAE and agreed by the Section 151 Officer.

[3] Clause 3 Treasury Management Code of Practice

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 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 and Governance 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 and Governance Committee

50. 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.

51. ***The Committee may request reports, information and explanations needed to discharge its responsibilities.***

Audit and Governance Committee Competency Framework

52. All Members of the Audit and Governance 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 the Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2022 Edition.

d) An understanding of any relevant legislation or other rules governing the operation of the Council.

e) A broad understanding of the local government environment, its accountability structures and current, major initiatives.

53. ***The Committee will complete an annual self-assessment. The results from this and any associated actions should be reported to the committee.***

54. 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.

Provision will be made for up to three Audit and Governance Committee training sessions each year. The training agenda will be informed by the Committee's annual self-assessment, including members' assessment of their collective skills and knowledge against relevant guidance. This will help ensure that development activity remains proportionate, targeted and responsive to identified needs, while allowing flexibility to reflect emerging issues and changes in the Committee's remit or operating environment.

Reviewed September 2026