

Report sponsor: Strategic Director – Corporate Resources
Report author: Head of Internal Audit

Committee Terms of Reference

Purpose

- 1.1 The Audit and Accounts Committee is an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment and reporting on the adequacy of the overall governance framework.
- 1.2 Regular review of the Committee's terms of reference against current best practice guidance will help the Committee to determine and fulfil its responsibilities, as well as supporting the ongoing need to consider its independence and accountability.
- 1.3 The Committee last reviewed the Terms of Reference at its meeting on 7 November 2018.

Recommendations

- 2.1 Members are asked to consider the current Audit and Accounts Committee Terms of Reference attached at Appendix 1 and the suggested amendments in paragraph 4.8 and provide appropriate comment or amendments.
- 2.2 Subject to the above, Members are asked to agree the Committee Terms of Reference and refer them to Council for approval.

Reasons

- 3.1 To ensure that the Council maintains an effective Audit and Accounts Committee.
- 3.2 To assist the Council in meeting its statutory requirement to review the effectiveness of its systems of internal control and prepare an Annual Governance Statement, as required by section 6 of the Accounts and Audit Regulations 2015.

Supporting information

- 4.1 The Accounts and Audit Regulations 2015 states that the Council 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.

- 4.2 Section 151 of the Local Government Act 1972 requires the Council “to make arrangements for the proper administration of its financial affairs”. The Section 151 Officer role is key to discharging the requirement for sound financial management at the Council. To be truly effective, the role requires an effective Audit and Accounts Committee to receive assurances on the effectiveness of the Council’s arrangements and provide support and challenge.
- 4.3. Effective internal control and the establishment and operation of an audit committee can never eliminate all risks of serious fraud, misconduct, or misrepresentation of the Council’s financial position. However, an effective audit committee can;
- Raise awareness of the need for robust risk management, control, corporate governance arrangements and the benefit of implementation of audit recommendations.
 - Increase public confidence in the objectivity and fairness of financial and other reporting.
 - Reinforce the importance and independence of internal and external audit and other assurance and inspection processes.
 - Provide additional assurance through a process of independent and objective review.
- 4.4 The current terms of reference for the Audit and Accounts Committee (see Appendix 1) were last reviewed in November 2018. Those Terms of Reference were developed by a Working Group based on the suggested Audit Committee terms of reference contained in the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Audit Committees – Practical Guidance for Local Authorities and Police" (published May 2018) and other local authority examples. The working group comprised of Councillors Willoughby, West and Care, together with an Independent Committee Member (Philip Sunderland) and the Head of Internal Audit.
- 4.5 The CIPFA guidance document also included their 2018 Position Statement on Audit Committees which emphasised the importance of audit committees and their role as a key component of governance. This is reproduced in Appendix 2. Members need to be satisfied that the Committee's terms of reference cover all the key functions of an audit committee.
- 4.6 Members should consider the implications of changes to the terms of reference, and ensure that these result in added value, proportionate to the additional resource required to fulfil them.
- 4.7 In considering the changes, Members should also consider how they would seek the required assurance of changes to the terms of reference in practice. CIPFA advises that care should be taken to balance the frequency of meetings to ensure the committee can give focused attention without lengthy and unproductive meetings. The committee should also operate at a strategic level and always be conscious that the Audit and Accounts Committee’s work is non-political.

Proposed Changes to the Terms of Reference

- 4.8 The Head of Internal Audit has reviewed the current Terms of Reference and proposes two changes to clarify the Committee's responsibility around risk management and assurance on fraud risks. These changes have been discussed with the Chair and Vice-Chair.

5. To consider, approve and monitor the effective development and operation of risk management in the council.

To be replaced with - To consider, approve and monitor the Council's risk management framework and to seek assurances on its effectiveness.

6. To review, approve and monitor the effectiveness of council policies on whistleblowing, counter fraud and corruption, anti-bribery and anti-money laundering.

To be replaced with - To review, approve and monitor the Council's Counter Fraud policies and Whistleblowing Policy, and to seek assurance on the assessment of fraud risks and the potential harm to the Council from fraud, bribery and corruption.

Public/stakeholder engagement

- 5.1 None

Other options

- 6.1 None

Financial and value for money issues

- 7.1 None

Legal implications

- 8.1 None

Climate implications

- 9.1 None

Other significant implications

- 10.1 None

This report has been approved by the following people:

| Role | Name | Date of sign-off |
|---|---|------------------|
| Legal Finance Service Director(s) Report sponsor Other(s) | Strategic Director – Corporate Resources | |
| Background papers: | None | |
| List of appendices: | Appendix 1 – Committee Terms of Reference (Nov 2018) Appendix 2 – CIPFA Position Statement | |

Audit and Accounts Committee

Terms of Reference

Statement of purpose

The Audit and Accounts Committee is a key component of the Council's corporate governance. It provides a high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the Audit and Accounts Committee is to provide independent assurance to the Council on the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Meetings

The Committee will meet at least four times a year. The Chair of the Committee may convene additional meetings as he/she deems necessary. The Head of the Paid Service, Section 151 Officer or the Head of Internal Audit may ask the Committee to convene further meetings to discuss particular issues.

The Audit and Accounts Committee, the Head of Internal Audit and External Audit have the opportunity for informal briefing sessions.

The Audit and Accounts Committee is authorised to discharge the following functions:

Governance, Risk, Control

1. To review the Council's arrangements for corporate governance against the good governance framework and consider quarterly governance reports and assurances.
2. To review and approve the authority's Annual Governance Statement (AGS).
3. To maintain an overview of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
4. To review any issue referred to it by the Chief Executive or a Strategic Director, or any Council Body.
5. To consider, approve and monitor the effective development and operation of risk management in the Council.
6. To review, approve and monitor the effectiveness of Council policies on whistleblowing, counter fraud and corruption, anti-bribery and anti-money laundering.

7. To monitor progress in addressing risk-related issues reported to the Committee.
8. To consider the Council's compliance with its own and other published standards and controls.
9. To consider reports from external regulators (e.g. Ofsted, Care Quality Commission, Local Government Ombudsman) that impact on the Committee's areas of responsibility.

Internal Audit

10. To consider and approve the annual internal audit plan, including internal audit's resource requirements.
11. To approve the internal audit charter.
12. To approve significant interim changes to the annual audit plan and resource requirements.
13. To consider (periodic) reports from the Head of Internal Audit on internal audit's performance during the year. These will include;
 - updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work,
 - regular reports on the results of the Quality Assurance and Improvement Programme (QAIP),
 - reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough to be included in the AGS.
14. To consider the Head of Internal Audit's annual report, including
 - the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement,
 - 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.
15. To consider summaries of specific internal audit reports as requested.
16. To consider reports dealing with the management and performance of the providers of internal audit services.

17. To consider reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the Council, or there are concerns about progress with the implementation of agreed actions.
18. In conjunction with the Council's s151 Officer, to commission work from internal audit.
19. To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
20. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
21. To provide free and unfettered access to the Chair of Committee for the Head of Internal Audit, including the opportunity for informal briefings with the Committee.

External Audit

22. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by the Public Sector.
23. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance and such specific reports as are agreed with external audit.
24. To comment on the scope and depth of external audit work and to ensure it gives value for money.
25. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
26. In conjunction with the Council's s151 Officer, to commission work from external audit.
27. To provide free and unfettered access to the Chair of the Committee for the External Auditor, including the opportunity for informal briefings with the Committee.

Financial reporting

28. To review and 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.
29. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

Treasury Management

30. To consider the robustness of the Council's treasury management strategy, policies and procedures before their submission to Cabinet, to ensure that controls are satisfactory.

31. To review the treasury risk profile and adequacy of the treasury management procedures.

Accountability Arrangements

32. To present an annual report on the work of the Committee to the Council, providing an opinion on the adequacy and effectiveness of the Council's governance, risk and control frameworks.

Review period of terms of reference

It is good practice to review the Committee's terms of reference on an annual basis.

Date of Last Review

November 2018

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption

- consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
- support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

5 An audit committee can also support its authority by undertaking a wider role in other areas including:

- considering governance, risk or control matters at the request of other committees or statutory officers
- working with local standards and ethics committees to support ethical values
- reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
- providing oversight of other public reports, such as the annual report.

6 Good audit committees are characterised by:

- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
- a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
- a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- unbiased attitudes – treating auditors, the executive and management fairly
- the ability to challenge the executive and senior managers when required.

7 To discharge its responsibilities effectively the committee should:

- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

Additional guidance to support those acting as audit committee members in local authorities can be found in CIPFA's publication *Audit Committees: Practical Guidance for Local Authorities and Police* (2018), available from www.cipfa.org.uk/publications