



**AUDIT & GOVERNANCE COMMITTEE**  
**22 March 2023**

# ITEM 11

Report sponsor: Chair of Audit and Governance Committee  
Report author: Head of Internal Audit

## Committee Terms of Reference

### Purpose

- 1.1 This report provides details of the changes to the Committee's Terms of Reference proposed by the Committee's Terms of Reference Working Group.

### Recommendations

- 2.1 Members are asked to consider the revised Audit and Governance Committee Terms of Reference attached at Appendix 1 and provide appropriate comment or amendments.
- 2.2 If Members agree the revised Committee Terms of Reference, they refer them to Council for approval.

### Reasons

- 3.1 To ensure that the Council maintains an effective Audit and Governance Committee.

### Supporting information

- 4.1 The Terms of Reference for the Committee were previously reviewed in January 2022.
- 4.2 The Terms of Reference were reviewed by a Working Group and were again based on the suggested Audit Committee terms of reference contained in the latest version of the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Audit Committees – Practical Guidance for Local Authorities and Police" (published October 2022). The working group comprised of Councillors West, Jennings and Care together with an Independent Committee Member (Philip Sunderland) and the Head of Internal Audit.
- 4.3 The amended Terms of Reference are attached at Appendix 1. All amendments are shown in red.
- 4.4 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. In considering the changes, Members should also consider how they would seek the required assurance of changes to the Terms of Reference in practice.

4.5 Members need to be satisfied that the Committee's Terms of Reference cover all the key functions of an audit committee. The CIPFA Position Statement on Audit Committees (2022) is reproduced at Appendix 2 to assist in this.

### **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

### **Socio-Economic implications**

10.1 None arising directly from this report

### **Other significant implications**

11.1 None

**This report has been approved by the following people:**

<b>Role</b>	<b>Name</b>	<b>Date of sign-off</b>
<b>Legal</b>		
<b>Finance</b>		
<b>Service Director(s)</b>		
<b>Report sponsor</b>		
<b>Other(s)</b>		

<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Revised Terms of Reference Appendix 2 – CIPFA Position Statement on Audit Committees

## Audit and Governance Committee

### Terms of Reference

#### Statement of purpose

The Audit and Governance Committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

#### Meetings

The Committee will meet at least four times a year. The Chair of the committee may convene additional meetings as ~~he/she~~ they deem 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 Governance Committee, the Head of Internal Audit and External Audit have the opportunity for ~~informal briefing sessions~~ private meetings.

The Audit and Governance 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~~ including the ethical framework and consideration of the local code of governance.
- ~~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~~ including contract procedure rules, financial ~~regulations~~ procedure rules 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 Council's risk management framework and to seek assurances on its effectiveness.

6. To consider the Council's arrangements for the mitigation of risk including receiving assurance on the adequacy of the Council's Insurance portfolio.
7. 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.
8. To monitor progress in addressing risk-related issues reported to the Committee.
9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions through the work of internal audit.
10. To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code, financial sustainability and the budgetary process.
11. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
12. To consider the council's compliance with its own and other published standards and controls.
13. To review the governance and assurance arrangements for any Council owned companies, significant partnerships or other collaborations.
14. To consider reports from external regulators (e.g. Ofsted, Care Quality Commission, Local Government Ombudsman) that impact on the Committee's areas of responsibility and to receive an annual report providing an overview of all external regulator activity at the Council during the year.
15. To consider the exercise of officers' statutory responsibilities and of functions delegated to officers.

## **Financial and governance reporting**

### **Governance reporting**

16. To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
17. To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

## **Financial reporting**

18. To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
19. 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.
20. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

## **Arrangements for audit and assurance**

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

### ***Internal Audit***

21. To consider and approve the annual internal audit plan, including internal audit's resource requirements.
22. To approve the internal audit charter
23. To approve significant interim changes to the annual audit plan and resource requirements.
24. 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.
25. 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.
26. To consider summaries of specific internal audit reports as requested.
  27. To consider reports dealing with the management and performance of the providers of internal audit services.
  28. 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.
  29. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
  30. To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments
  31. In conjunction with the Council's s151 Officer, to commission work from internal audit.
  32. 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.
  33. To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations.
  34. To provide free and unfettered access to the Chair of Committee for the Head of Internal Audit, including the opportunity for ~~informal briefings~~ private meetings with the Committee.

### **External Audit**

35. 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 **by the Public Sector Audit Appointments Limited (PSAA) or the Financial Reporting Council (FRC).**
36. 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.
37. To comment on the scope and depth of external audit work and to ensure it gives value for money.
38. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies

39. In conjunction with the Council's s151 Officer, to commission work from external audit.

40. To provide free and unfettered access to the Chair of the Committee for the External Auditor, including the opportunity for ~~informal briefings~~ **private meetings** with the Committee.

### ***Treasury Management***

41. 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.

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

### ***Accountability Arrangements***

**43.** 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.~~ **including a conclusion on the compliance with the CIPFA Position Statement, the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.**

44. To report to full council where necessary **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**

March 2023

# CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

## Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

## Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives.

CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The 2022 edition of the position statement replaces the 2018 edition.

**The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.**



# CIPFA's Position Statement 2022: Audit committees in local authorities and police

## Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

## Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

## Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

### Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

### Financial and governance reporting

- Be satisfied that the authority's accountability 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.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

### Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and conformance to professional standards
  - support effective arrangements for internal audit
  - promote the effective use of internal audit within the assurance framework.

- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

## Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills 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
  - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members. 5

## Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

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 chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

## Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.