

## **Report: Update from Audit Committee Terms of Reference Working Group**

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### **Purpose of the Report**

To update members of the Audit Committee following the Audit Committee Terms of Reference Working Group meeting held on the 1 September 2021.

### **Public Interest**

Audit committees are a key component of corporate governance and an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

It is good practice to periodically review the remit and working practices of the Audit Committee to ensure they are in line with any updated national guidance and/or legislative changes and therefore remaining fit for purpose.

This report updates Members on the Member/Officer Work Group that was created following the May 2021 Audit Committee to review the Audit Committee's existing Terms of Reference (ToRs) in line with the guidance contained in the CIPFA (Chartered Institute of Public Finance and Accountancy) publication entitled "Audit Committees; Practical Guidance for Local Authorities and Police" (2018 edition).

The working group will also review any changes that may be needed arising from MHCLG's (Ministry of Housing, Communities & Local Government) response to Sir Tony Redmond's "Independent review into the oversight of local audit and the transparency of local authority financial reporting" (September 2020).

Any recommendations for changes to the ToRs would come to a future Audit Committee for review and then on to full Council for approval.

### **Recommendations**

1. To note the update report following the Terms of Reference Working Group

## Background

There have been a number of significant developments in local authority governance and audit practices over the last 8 years. This includes “Delivering Good Governance in Local Government: Framework” (CIPFA/Solace 2016), development and updates to the Public Sector Internal Audit Standards (PSIAS), and the introduction of the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) and the Local Audit and Accountability Act 2014.

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, the committee brings an important source of assurance to the Council’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance matters.

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 authority 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 (PSIAS) and the supporting Local Government Application Note (LGAN).

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.

It is therefore important that the Terms of Reference are reviewed periodically to ensure relevant matters of governance, risk management and internal control are incorporated into the scope of the Audit Committee.

## Review of the Audit Committee's ToRs

The Working Group met on the 1st of September 2021

A comparison between the existing SSDC Audit Committee ToRs and the CIPFA suggested ToRs were reviewed, with particular focus on the areas not currently covered within the SSDC Audit Committee ToR. The table below summarises the gaps between the existing SSDC Audit Committee Terms of Reference and the CIPFA Suggested Terms of Reference.

<b>CIPFA Guidance sections</b>	<b>Included in SSDC ToR and paragraph number</b>
1 Governance – position of committee in structure.	Yes – Intro
2 Statement of Purpose.	Yes – Intro
<b>Governance risk &amp; control</b>	
3 Review Local code of Corporate Governance.	Yes – 11
4 Review the AGS prior to approval.	Yes – 10
5 Review Value for Money effectiveness.	No
6 Consider framework of assurance.	No
7 Monitor risk management.	Yes – 9
8 Monitor progress in addressing risk related issues.	No
9 Consider reports on effectiveness of internal controls and implementation of actions.	Yes – 9
10 Review assessment of fraud risks.	Yes – 9
11 Monitor counter-fraud strategy.	No
12 Review governance and assurance arrangement of significant partnerships or collaborations.	No – although the council do not have many partnerships
<b>Internal Audit</b>	
13 Approve internal audit charter	Yes – 1
14 Review proposals to appointment of external providers of IA services.	No
15 Approve risk-based audit plan	Yes – 1
16 Approve significant interim changes to RB IA plan.	No
17 Enquires of management & HIA to determine any inappropriate scope or resource limitations.	No



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18 Consider impairments to independence or objectivity from additional roles or responsibilities for HIA.	No
19 Consider reports form HIA on performance during the year	Yes – 2
20 Consider HIA annual report	Yes – 3
21 Consider summaries of specific IA reports	Yes – 5
22 Receive reports outlining action taken when HIA reports management has accepted a level of risk that may be unacceptable to the authority/concerns about progress of agreed action implementation.	Partial – 16 allows them to request reports on any areas In ToR which would allow this to be completed.
23 Contribute to the QAIP.	No
24 Consider report on effectiveness of IA to support AGS	Yes – 6
25 Provide access to audit committee chair for HIA.	No
<b>External audit</b>	
26 Support independence of EA through consideration of EA annual assessment and review issues raised by PSAA	No
27 Consider EA annual letter, relevant reports and report to those charged with governance	Yes – 8
28 Consider specific reports as agreed with EA.	Yes – 8
29 Comment on scope & depth of EA work – ensure VFM.	Yes – 7 does not reference VFM
30 Commission work from internal & external audit.	No
31 Advise & recommend on effectiveness of relationship between internal & external audit.	No
<b>Financial reporting</b>	
32 Review annual statement of accounts	Yes – 13
33 Consider EA report on issues arising from audit of accounts	Yes – 13
<b>Accountability arrangements</b>	
34 Report to those charged with governance – committee finding, conclusions & recommendations concerning adequacy & effectiveness of governance, risk management & internal control frameworks	Partial – 17 report to DX any issues remaining unresolved.
35 Report to FC on committee's performance in relation to ToR.	Yes – 18
36 Publish annual report on the work of the committee.	No

There are additional responsibilities contained within the current SSDC Audit Committee ToR that will also need to be retained in any proposed ToR, such as review of Treasury Management, oversight of recommendations on changes to Financial Regulations, as well as taking into consideration the key requirements from the Redmond Review.

The next steps will be to clearly identify the nature of agenda items that will need to be present to the Audit Committee against each item in the table above. This is to assist with understanding how each requirement can be discharged by the Audit Committee. This will feed into an outline forward plan for the year to ensure all aspects of a proposed Terms of Reference are fulfilled.

### **Financial Implications**

The Accounts and Audit Regulations 2015 state 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.

Furthermore, 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 Governance Committee to receive assurances on the effectiveness of the Council’s arrangements and provide support and challenge. There are no direct financial costs associated with this paper.

### **Council Plan Implications**

The proposals in this report contribute to SSDC’s vision of being open and transparent and actively communicating, engaging and listening to feedback.

### **Carbon Emissions and Climate Change Implications**

There are no implications arising from agreeing this report.

### **Equality and Diversity Implications**

There are no implications arising from agreeing this report.

### **Background Papers**

- CIPFA (Chartered Institute of Public Finance and Accountancy) “Audit Committees; Practical Guidance for Local Authorities and Police” (2018 edition).
- MHCLG’s “Local authority financial reporting and external audit: government response to the Redmond review” (December 2020)
- Review of Audit Committee’s Terms of Reference Agenda Item 11 May 2021 Audit Committee