

Report: Update from Audit Committee Terms of Reference Working Group

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Purpose of the Report

For members of the Audit Committee to comment on, and recommend for Full Council approval, the proposed updated Audit Committee Terms of Reference (Appendix A) produced by the Audit Committee Terms of Reference Working Group.

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".

Recommendations

1. To recommend the proposed Audit Committee Terms of Reference (Appendix A) to Full Council for approval.

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.

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](#)
- [Update on Audit Committee’s Terms of Reference from the Work Group Agenda Item 8 30 September 2021](#)
- [Existing Audit Committee Terms of Reference – Constitution](#)

Appendix A – Proposed Audit Committee Terms of Reference

Statement of purpose

Our audit committee is a key component of South Somerset District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

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

1. Governance, risk and control

- 1.1 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 1.2 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 1.3 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 1.4 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 1.5 To monitor the effective development and operation of risk management in the council.
- 1.6 To monitor progress in addressing risk-related issues reported to the committee.
- 1.7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 1.8 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 1.9 To monitor the counter-fraud strategy, actions and resources.
- 1.10 To review the governance and assurance arrangements for significant partnerships or collaborations.



2. Internal audit

- 2.1 To approve the internal audit charter.
- 2.2 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 2.3 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 2.4 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 2.5 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 2.6 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.
- 2.7 To consider reports from the head of internal 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 as a result of internal audit work
 - b) regular reports on the results of the QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 2.8 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support 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 AGS.
- 2.9 To consider summaries of specific internal audit reports as requested.
- 2.10 To receive 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 authority or there are concerns about progress with the implementation of agreed actions.
- 2.11 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.
- 2.12 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 (see Appendix A).



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- 2.13 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

3. External audit

- 3.1 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 PSAA or the authority's auditor panel as appropriate.
- 3.2 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 3.3 To consider specific reports as agreed with the external auditor.
- 3.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 3.5 To commission work from internal and external audit.
- 3.6 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

4. Financial reporting

- 4.1 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.
- 4.2 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 4.3 To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules.

5. Treasury Management

- 5.1 To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices.
- 5.2 The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council.

6. Accountability arrangements

- 6.1 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.



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- 6.2 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 6.3 To publish an annual report on the work of the committee.