

Council Report

Audit Committee – 2 October 2018

Title

Audit Committee Terms of Reference

Is this a Key Decision and has it been included on the Forward Plan?

No.

Strategic Director Approving Submission of the Report

Judith Badger, Strategic Director Finance and Customer Services.

Report Author(s)

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Ward(s) Affected

All wards.

Executive Summary

This report refers to a proposed update to the Terms of Reference of the Council's Audit Committee. In May 2018 CIPFA (the Chartered Institute of Public Finance and Accountancy) published 'Audit Committees – Practical Guidance for Local Authorities and Police', an update of previous guidance from 2013. The guidance includes suggested Terms of Reference for audit committees, which have been used as the basis for the attached proposed Terms of Reference.

The Terms of Reference form part of the Council's Constitution, so if approved by the Committee they will be referred to the Constitution Working Group and then to Council for final approval.

Recommendations

The Audit Committee is asked to:

- **Consider and approve the updated Terms of Reference for the committee, and**
- **Recommend to the Constitution Working Group and Council that they are adopted.**

List of Appendices Included:-

Appendix A – Proposed Audit Committee terms of Reference

Background Papers

CIPFA paper – Audit Committees, Practical Guidance for Local Authorities and Police, 2018 Edition.

RMBC Constitution

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Subject to approval by the Audit Committee, to be referred to the Constitution Working Group.

Council Approval Required

Yes.

Exempt from the Press and Public

No.

Title: Audit Committee Terms of Reference

1. Recommendations

The Audit Committee is asked to:

- **Consider and approve the updated Terms of Reference for the committee, and**
- **Recommend to the Constitution Working Group and Council that they are adopted.**

2. Background

2.1 The Audit Committee is responsible for overseeing the Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Audit Committee is referred to in Section 9 of the Constitution, and its specific powers and duties are set out in Appendix 9 under the Terms of Reference of the Audit Committee. These have been in place for a number of years and were not changed during the recent update to the Constitution.

2.2 In November 2015 the Audit Committee recommended that the Constitution be amended to extend the membership of the Audit Committee to include a voting independent member. Council discussed this at their meeting on 9th December 2015 and resolved 'That the reports and minutes of the meeting of the Audit Committee be adopted'. However, the Constitution was not changed at that time to reflect the extended membership. Since then each annual Prospectus for the Audit Committee has included the extended membership, been submitted to Council and approved as part of the Audit Committee papers.

2.3 In May 2018 CIPFA issued an update to their publication Audit Committees – Practical Guidance for Local Authorities and Police. Following the guidance is not a statutory requirement, but is regarded to be essential good practice. The guidance details the purpose of Audit Committees; their core functions and possible wider functions; independence and accountability; and membership and effectiveness. Appendices refer to government guidance; suggested terms of reference; the skills and knowledge framework for audit committee members; and self-assessments of good practice and assess effectiveness.

2.4 The Audit Committee has received a briefing on the Guidance, and the suggested terms of reference have been used as the basis for the proposed Terms of Reference for RMBC Audit Committee.

3. Key Issues

3.1 The proposed Terms of Reference for the Audit Committee are attached at **Appendix A**. The existing entries in the Constitution are included at **Appendix B**.

3.2 The main changes to the Terms of Reference are as follows:

- They include the extended membership agreed in December 2015.
- A Statement of purpose outlines the role of the committee
- Detailed responsibilities are given for governance, risk and control; internal audit; external audit; financial reporting; treasury management; and accountability.

4. Options Considered and Recommended Proposal

4.1 This report is presented to update the Terms of Reference for the Audit Committee and to bring them into line with the CIPFA guidance.

5. Consultation

5.1 The proposed Terms of Reference have been reviewed by the Monitoring Officer and the Strategic Director Finance and Customer Services.

6. Timetable and Accountability for Implementing this Decision

6.1 If approved, for onward submission to the Constitution Working Group and Council for final approval.

7. Financial and Procurement Implications

7.1 There are no direct financial or procurement implications arising from this report.

8. Legal Implications

8.1 The report recommends a change to the Council Constitution.

9. Human Resources Implications

9.1 There are no direct Human Resources implications arising from this report.

10. Implications for Children and Young People and Vulnerable Adults

10.1 There are no immediate implications associated with the proposals.

11. Equalities and Human Rights Implications

11.1 There are no immediate implications associated with this report.

12. Implications for Partners and Other Directorates

12.1 Partners will be able to take assurance on the Council's application of governance controls and management of risks from the work of the Audit Committee.

13. Risks and Mitigation

13.1 The Audit Committee aims to comply with standards established by CIPFA. The adoption of Terms of Reference based on the CIPFA guidance contributes to enabling this compliance.

14. Accountable Officer(s)

David Webster, Head of Internal Audit

Audit Committee Terms of Reference October 2018

Committee Size

To be comprised of:-

- Five Councillors, none of which are members of the Cabinet.
- One person who is not a councillor or officer of the Council (independent member).

Statement of purpose

- 1 The audit committee is a key component of RMBC'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.
- 2 The purpose of the audit committee is to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. It provides independent review of RMBC'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.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider RMBC's code of governance.
- 4 To review the Annual Governance Statement (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.
- 5 To approve the final AGS for publication.
- 6 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 8 To monitor the effective development and operation of risk management in the council.
- 9 To monitor progress in addressing risk-related issues reported to the committee.
- 10 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 11 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 12 To monitor the counter-fraud strategy, actions and resources.

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

Internal audit

- 14 To approve the internal audit charter.
- 15 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.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 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.
- 19 To approve the internal or external assessments of Internal Audit against Public Sector Internal Audit Standards. This will include:-
 - 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 that it must be included in the AGS
- 20 To consider 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:-
 - progress against the plan
 - key findings and issues of concern
 - action in hand as a result of internal audit work
 - performance indicators
- 21 To approve the head of internal audit's annual report:-
 - 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.
- 22 To consider summaries of specific internal audit reports.
- 23 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.
- 24 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.

- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for him to meet privately with the committee.

External audit

- 26 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 Public Sector Audit Appointments (PSAA).
- 27 To approve the external auditor's annual plan
- 28 To approve any revisions to the external auditor's plan
- 29 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 30 To consider specific reports as agreed with the external auditor.
- 31 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 32 To commission work from internal and external audit.
- 33 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 34 To receive the draft annual statement of accounts following approval by the s151 Officer. Specifically, to consider whether appropriate accounting policies have been followed.
- 35 To approve the final audited annual statement of accounts for publication. Specifically to consider whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 36 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 37 To deal with any matters referred to the Committee by the Strategic Director Finance and Customer services in relation to her responsibilities under section 151 of the Local Government Act 1972.

Treasury Management

- 38 To review treasury management policy, strategy and procedures and to be satisfied that controls are satisfactory
- 39 To receive annual reports on treasury management, specifically the outturn report and the mid-year report
- 40 To review the treasury risk profile and adequacy of treasury risk management processes
- 41 To review assurances on treasury management, for example an internal audit report, external audit report or other review.

Accountability arrangements

- 42 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.
- 43 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.
- 44 To submit a report on the work of the committee to the Council on an annual basis.

Current Constitution

9. Audit Committee

9.1 The Council has established an Audit Committee comprising five nonexecutive members of the Council. The Committee will be attended by a representative of the Council's external auditors as well as senior officers of the Council. The Committee's remit is –

- to consider all issues relating to audit matters, both internal and external;
- to monitor and review the effectiveness of risk management systems, including systems of internal control;
- to consider the preparation and monitoring of the internal audit plan;
- to consider summary reports of each internal audit and value for money study undertaken;
- to consider the external audit plan;
- to consider reports from the external auditor, including value for money, systems and final accounts audits;
- to review and monitor the performance of internal audit;
- to review and monitor the anti-fraud strategy and initiatives;
- to ensure the receipt of 'Best Value' from all audit resources;
- to review and monitor corporate governance matters in accordance with audit guidelines.

The Audit Committee will consider the external auditor's annual report on the Council's statement of accounts income and expenditure and will also consider the SAS 610 report from the external auditor. However, the external auditor's management letter will be presented to the full Council.

Current Constitution Appendix 9

The Audit Committee has the delegated power to determine the following:-

1. approve the internal auditor's annual plan
2. approve revisions to the internal auditor's plan
3. approve the internal auditor's annual report
4. approve the annual review of the effectiveness of internal audit
5. approve the external auditor's annual plan
6. approve revisions to the external auditor's plan
7. approve the external auditor's annual report
8. approve the annual governance statement
9. approve the draft statement of accounts for audit
10. receive and respond to the external auditor's ISA260 (International Standards on Auditing) report on the accounts
11. approve the final audited statements of accounts.