

Committee Name and Date of Committee Meeting

Audit Committee – 14th March 2023.

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)

David Webster, Head of Internal Audit

Tel: 01709 823282 Email: david.webster@rotherham.gov.uk

Ward(s) Affected

Borough wide.

Report Summary

This report refers to a proposed update to the Terms of Reference of the Council's Audit Committee. In October 2022 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 2018. 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.

The paper also includes the use of substitutes in the Committee.

Recommendations

The Audit Committee is asked to:

- 1) Consider and approve the updated Terms of Reference for the Committee.
- 2) Recommend to the Constitution Review Working Group and Council that they are adopted.

List of Appendices Included

Appendix A – Proposed Audit Committee Terms of Reference

Appendix B – Current Audit Committee Terms of Reference

Background Papers

CIPFA publication – Audit Committees, Practical Guidance for Local Authorities and Police, 2022 edition – the Audit Committee Member in a Local Authority

CIPFA publication – Audit Committees, Practical Guidance for Local Authorities and Police, 2022 edition – Guiding the Audit Committee, Supplement to the Audit Committee Member Guidance

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.

Audit Committee Terms of Reference

1. Background

- 1.1 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 since 2019.
- 1.2 In October 2022 CIPFA issued an update to their publication 'Audit Committees – Practical Guidance for Local Authorities and Police', in two parts. The first is written for Audit Committee Members, with the second being a supplement aimed at officers responsible for guiding the Audit Committee. 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.
- 1.3 Following the guidance is not a statutory requirement but is regarded to be good practice. The suggested terms of reference have been used as the basis for the proposed updated Terms of Reference for RMBC Audit Committee.
- 1.4 At the same time, the Constitution Review Working Group has met, considered and agreed to recommend to Council allowing substitutes to be nominated for Committees. The opportunity has therefore been taken to include the use of substitutes for the Audit Committee in this update.
- 1.5 The Audit Committee has received a briefing on the Guidance on 10th March 2023.

2. Key Issues

2.1 The Use of Substitutes

The guidance recommends that the use of substitutes is avoided, as they are less likely to have received relevant training and it can disrupt the continuity of the Committee, where members can build on information gained in previous meetings. However, in Rotherham it is felt that allowing substitutes will:-

- Ensure Members are fully involved in the work of the Committee.
- Spread knowledge of the work of the Committee.
- Broaden the number of Councillors trained in the work of the Committee.

It should be noted that for Audit Committee (in common with other Committees) only those Members who have been trained will be able to act as substitutes.

2.2 Terms of Reference

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**.

2.3 Many of the changes formalise current practice at RMBC. The material changes to the Terms of Reference are as follows:

Committee Size

- The increased number of independent members, from one to two.

Paragraph

- 6 The inclusion of reviews of risk registers, to bring it into line with current practice.
- 8 The review of compliance with CIPFA's Financial Management Code. (This has previously been considered as part of the paper on the Annual Governance Statement.)
- 13 To deal with any matters referred to the Committee by the Statutory Officers. (previous provision was for s151 officer only.)
- 15 More in-depth review of the Annual Governance Statement.
- 17 Monitoring the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met. (This has previously been considered as part of a paper from Finance prior to the year-end.)
- 22 To receive reports on progress in implementing actions from external inspections and audits. (The committee receives reports every six months.)
- 31 The provision of free and unfettered access for the external auditors to the audit committee chair and the opportunity for a private meeting with the committee. (In reality, this has always been the case.)

2.4 Approval of the Statement of Accounts

CIPFA has the view that the Audit Committee's role is one of review, not decision making, and that the Committee should review the final accounts before they are approved by Council. They do however acknowledge that in some Authorities the Audit Committee approves the Statement of Accounts. A review of Authorities within Yorkshire showed that the approval of the Statement of Accounts by Audit Committees is standard practice.

2.5 Within RMBC the Audit Committee already has delegated responsibility within its Terms of Reference to approve the final Statement of Accounts. Each year the Committee receives a briefing from the AD Financial Services and his team on the accounts. They have therefore built up a level of knowledge and are able to provide a good level of challenge. They also have the time to do so between receiving the draft and final Statements. Retaining the authority within the Audit Committee will enable a more focused and thorough consideration and hence be more effective. In addition, there would be practical difficulties in arranging for full Council to approve the Statement of Accounts on the statutory deadline.

2.6 It is therefore recommended to maintain the current arrangements. However, there will continue to be engagement with other Authorities to ensure that this remains in line with standard practice.

3. Options considered and recommended proposal

3.1 This report is presented to update the Terms of Reference for the Audit Committee after the publication of CIPFA guidance.

4. Consultation on proposal

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

5. Timetable and Accountability for Implementing this Decision

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

6. Financial and Procurement Advice and Implications

6.1 The proposal includes the provision of a second independent member of the Committee. An independent member receives an allowance of £710 per annum. The cost to appoint an additional independent member can be met from the wider Democratic Service budget.

7. Legal Advice and Implications

7.1 The report recommends a change to the Council Constitution.

8. Human Resources Advice and Implications

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

9. Implications for Children and Young People and Vulnerable Adults

9.1 There are no direct implications associated with these proposals.

10. Equalities and Human Rights Advice and Implications

10.1 There are no direct Equalities and Human Rights Implications arising from these proposals.

11. Implications for CO2 Emissions and Climate Change

11.1 There are no direct CO2 and Climate Change implications arising from these proposals.

12. Implications for Partners

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

David Webster, Head of Internal Audit.

Tel 01709 823282 E mail david.webster@rotherham.gov.uk

Audit Committee Terms of Reference March 2023

Committee Size

To be comprised of:-

- Five Councillors, none of which are members of the Cabinet.
- Two people who are not councillors or officers of the Council (independent members).

Statement of purpose

- 1 The 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 the Council that those arrangements are effective.
- 2 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.

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 monitor the effective development and operation of risk management in the Council
- 5 To monitor progress in addressing risk-related issues reported to the Committee.
- 6 To review risk registers and consider their adequacy and effectiveness in capturing and assessing risks and completing mitigating actions.
- 7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 8 To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code.
- 9 To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 10 To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- 11 To monitor the Counter-Fraud Strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.
- 13 To deal with any matters referred to the Committee by the Statutory Officers.

Governance Reporting

- 14 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.
- 15 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.
- 16 To approve the final AGS for publication.

Financial Reporting

- 17 To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- 18 To review the draft annual Statement of Accounts following approval by the s151 Officer. Specifically, to consider whether appropriate accounting policies have been followed.
- 19 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.
- 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

- 21 To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- 22 To consider reports on progress against actions from external inspections and audits.

External audit

- 23 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).
- 24 To approve the external auditor's annual plan.
- 25 To approve any revisions to the external auditor's plan.
- 26 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 27 To consider specific reports as agreed with the external auditor.
- 28 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 29 To consider additional commissions of work from external audit.

- 30 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies
- 31 To provide free and unfettered access to the Audit Committee Chair for the auditors, including the opportunity for a private meeting with the Committee.

Internal Audit

- 32 To approve the Internal Audit Charter.
- 33 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.
- 34 To approve significant interim changes to the risk-based Internal Audit plan and resource requirements.
- 35 To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- 36 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- 37 To approve the internal or external assessments of Internal Audit against Public Sector Internal Audit Standards.
- 38 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; and performance indicators.
 - regular reports on the results of Quality Assurance and Improvement Programme.
 - 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
- 39 To approve 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.
- 40 To consider summaries of specific Internal Audit reports.
- 41 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.
- 42 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.
- 43 To provide free and unfettered access to the Audit Committee Chair for the Head of Internal Audit, including the opportunity for him/her to meet privately with the committee.

Treasury Management

- 44 To review Treasury Management Policy, Strategy and procedures and to be satisfied that controls are satisfactory
- 45 To receive annual reports on Treasury Management, specifically the outturn report and the mid-year report
- 46 To review the treasury risk profile and adequacy of treasury risk management processes
- 47 To review assurances on Treasury Management, for example an Internal Audit report, external audit report or other review.

Accountability arrangements

- 48 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.
- 49 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.
- 50 To submit a report on the work of the Committee to the Council on an annual basis, including a conclusion on compliance with the CIPFA Position Statement on Audit Committees.

Appendix B

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 so severe 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/her 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 his/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.