

North East Derbyshire District Council

Council

22 May 2023

Review of the Audit Committee Structure and Terms of Reference

Report of the Director of Finance & Resources (S151 Officer)

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: Jayne Dethick

PURPOSE/SUMMARY

1. For Council to consider CIPFA's updated Position Statement on Audit Committees in Local Authorities and Police and recommendations in the report which if approved will demonstrate that best efforts have been made to meet the principles in CIPFA's position statement.
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RECOMMENDATIONS

1. That Council consider CIPFA's expectations in their position statement on Audit Committees as detailed in the report and approve:
 - The separation of the audit and scrutiny functions;
 - A refresh of the terms of reference for the Audit Committee in the Constitution;
 - Recruitment of co-opted independants as required, taking account of the overall knowledge and expertise of the existing membership.
 2. That the Assistant Director of Governance is given delegated power in consultation with the Chair of Audit Committee to amend the Schedule of Meeting Dates to provide for appropriate dates for the new Audit Committee to meet over the 23/24 Corporate year.
 3. That the Director of Finance & Resources (S151 Officer) is given delegated power in consultation with the Chair of Audit Committee to run the recruitment process for the co-opted independants, for Council to then make the decision on their appointment.
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IMPLICATIONS

Finance and Risk

Yes

No ✓

There are no additional financial implications arising from this report

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes

No ✓

There are no legal implications directly arising from this report.

On Behalf of the Solicitor to the Council

Staffing

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

DECISION INFORMATION

<p>Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p>NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> Please indicate which threshold applies</p>	N/A
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	N/A
<p>District Wards Significantly Affected</p>	None
<p>Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet <input checked="" type="checkbox"/> SMT <input checked="" type="checkbox"/> Relevant Service Manager <input checked="" type="checkbox"/> Members <input type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></p>	Yes Details:

<p>Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.</p>
All

REPORT DETAILS**1 Audit Committees**

- 1.1 Audit Committees are a key component of a local authority's governance framework. Their purpose is to provide an independent and high level focus on the adequacy of governance, risk and control across the Council.

- 1.2 In late 2022, CIPFA issued an updated *Position Statement on Audit Committees in Local Authorities and Police* setting out the purpose, model, core functions and membership of audit committees. The position statement sets out CIPFA's view on the audit committee practice and principles which local government bodies in the UK should adopt. The Department for Levelling Up, Housing and Communities (DLUHC) and the Home Office support this position statement.
- 1.3 CIPFA expects that all local government bodies should make their best efforts to adopt the principles in their position statement, enabling such bodies to meet their statutory responsibilities for effective governance and internal control arrangements.
- 1.4 This report sets out CIPFA's expectations, highlights where the Council currently doesn't meet them and the measures required to do so.

2. An Independent and Effective Model for the Audit Committee

- 2.1 The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. The committee should:
 - Be directly accountable to the governing body (ie Full Council)
 - In local authorities, be independent of the scrutiny function
 - Be of an appropriate size to operate with experienced, trained members. Large committees should be avoided
 - Should include at least two co – opted independents to provide appropriate technical expertise.
- 2.2 Currently the Council has a combined audit and scrutiny function so in order to comply with the expectations of CIPFA's position statement the two functions should be separated. The core functions of a dedicated audit committee are discussed at 3.1 below. The remaining functions would be incorporated into the Council's scrutiny function.

3. Core Functions of the Audit Committee

- 3.1 CIPFA's position statement also provides an analysis of the the core functions of the audit committee. The primary role is to provide oversight of a range of core governance and accountability arrangements and ensure robust arrangements are maintained. The specific responsibilities of the audit committee are:
 - Support a comprehensive understanding of governance across the Council and among those charged with governance, fulfilling the principles of good governance.
 - Consider the effectiveness of the Council's risk management arrangements. The committee should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk related issues, for both the Council and its collaborators/partners. This

will include monitoring and reviewing of the Council's treasury management arrangements.

- Monitor the effectiveness of the system of internal control, including arrangements for value for money, supporting standards and ethics and managing the Council's exposure to the risks of fraud and corruption.
- Be satisfied that the Council's statutory statements of account and any reports that accompany them, including the Annual Governance Statement, properly reflect the risk environment, and any actions required to improve it.
- Consider the audit arrangements in place to secure adequate assurance across all operations and where appropriate partners and collaborators.
- Oversee the independence, objectivity, performance and conformance to professions standards of the internal audit function.
- 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 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 Council, encouraging openness to challenge, review and accountability.

3.2 To discharge its responsibilities effectively, the audit committee should:

- Meet regularly, four times a year is recommended
- Be able to, as required, meet privately and separately with the external auditor and head of internal audit.
- Include, as regular attendees, the chief financial officer, the chief executive, the head of internal audit and the appointed external auditor. These officers should also be able to access the committee members and the chair as required.
- Report annually on how the committee has complied with the CIPFA position statement, discharged its responsibilities and include an assessment of its performance. This report should be presented to Full Council and be available to the public.

3.3 Currently, the terms of reference for the Audit Committee in the Council's Constitution reflect the combined role of audit and scrutiny. Also they reflect best practice on Audit Committees prior to the refresh CIPFA's position. The Terms of Reference therefore need refreshing to reflect the change to the committee structure, should Council approve, and current best practice as reflected in CIPFA's updated position statement. Draft Terms of Reference for the Audit Committee can be found at Appendix 1 for members consideration.

4. Audit Committee Membership

4.1 CIPFA's position statement also provides guidance to local authorities on membership to the Audit Committee. Their guidance states that in order to provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the Council, the members of the committee need the relevant knowledge, skills and experience. They recommend key characteristics for audit committee membership:

- Trained to fulfil their role, be objective and have an inquiring and independent approach.
- Promote the good governance principles
- A strong independently minded chair, displaying a depth of knowledge, skills and interest in both the Council's governance and best practice.
- Willingness to operate in an apolitical manner
- Unbiased attitudes treating auditors, officers and decision makers fairly
- The ability to challenge decision makers
- Knowledge, expertise and interest in the work of the committee

4.2 The appointment of co-opted independents on the committee is also recommended by CIPFA. Appointments should take account of the overall knowledge and expertise of the existing membership.

4.3 Currently the Audit Committee does not have co-opted independents. In order to meet best practice members may wish to consider recruitment of 1 or 2 co-opted independents to the Committee. Co-opted members are non-councillor members, appointed where specialist input is required or where an outside view of the council can be useful in guiding councillors' deliberations.

5 Reasons for Recommendation

5.1 To demonstrate that the Council meets CIPFA's expectation that best efforts to adopt the principles in their position statement have been made, providing assurance that it is meeting its statutory responsibilities for effective governance and internal control arrangements.

6 Alternative Options and Reasons for Rejection

6.1 To continue with the current structure and terms of reference. Not recommended as this does not reflect the requirements of CIPFA's updated position statement on Audit Committees for local authorities.

DOCUMENT INFORMATION

Appendix No	Title
1	Draft Terms of Reference for the Audit Committee
Background Papers	

Draft Terms of Reference for the Audit Committee in the Council's Constitution

The primary role of the Audit Committee is to provide oversight of a range of core governance and accountability arrangements and ensure robust arrangements are maintained. The specific responsibilities of the audit committee are:

- Support a comprehensive understanding of governance across the Council and among those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the Council's risk management arrangements. The committee should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk related issues, for both the Council and its collaborators/partners. This will include monitoring and reviewing of the Council's treasury management arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for value for money, supporting standards and ethics and managing the Council's exposure to the risks of fraud and corruption.
- Be satisfied that the Council's statutory statements of account and any reports that accompany them, including the Annual Governance Statement, properly reflect the risk environment, and any actions required to improve it.
- Consider the audit arrangements in place to secure adequate assurance across all operations and where appropriate partners and collaborators.
- Oversee the independence, objectivity, performance and conformance to professions standards of the internal audit function.
- 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 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 Council, encouraging openness to challenge, review and accountability.

To discharge its responsibilities effectively, the Audit Committee should:

- Meet regularly, four times a year is recommended
- Be able to, as required, meet privately and separately with the external auditor and head of internal audit.
- Include, as regular attendees, the chief financial officer, the chief executive, the head of internal audit and the appointed external auditor. These officers should also be able to access the committee members and the chair as required.

- Report annually on how the committee has complied with the CIPFA position statement, discharged its responsibilities and include an assessment of its performance. This report should be presented to Full Council and be available to the public.
- Include co-opted independents as required taking account of overall knowledge and expertise of the existing membership. Co-opted members are non-councillor members, appointed where specialist input is required or where an outside view of the council can be useful in guiding councillors' deliberations

The key characteristics for audit committee membership:

- Trained to fulfil their role, be objective and have an inquiring and independent approach.
- Promote the good governance principles
- A strong independently minded chair, displaying a depth of knowledge, skills and interest in both the Council's governance and best practice.
- Willingness to operate in an apolitical manner
- Unbiased attitudes treating auditors, officers and decision makers fairly
- The ability to challenge decision makers
- Knowledge, expertise and interest in the work of the committee