


Audit and Standards Committee Terms of Reference

Report to Audit and Standards Committee		
 <p>Burnley .gov.uk</p>	DATE	17/03/2022
	PORTFOLIO	Resources and Performance Management
	REPORT AUTHOR	Ian Evenett
	TEL NO	01282 477175
	EMAIL	ievenett@burnley.gov.uk

PURPOSE

1. To review the terms of reference for the committee.

RECOMMENDATION

2. Members consider the report and provides comment on any changes for the committee's terms of reference.

REASONS FOR RECOMMENDATION

3. Periodic review of the Terms of reference of the committee is best practice for Audit Committees.
4. To ensure that the committee is effective in meeting its aims.

SUMMARY OF KEY POINTS

Current Terms of reference (Appendix 1)

5. The format of the committee reference is a combination of the Audit role and the Standards role. As can be seen the points 1 to 3 relate to Standards and 4 relate to Audit.
6. The mechanism for changing this would require consideration by the Member Structures and Support Working Group, who would make recommendations to Full Council.

Example Terms of Reference from Central Government (Appendix 2)

7. This is a good practice example for the terms of reference and there are many overlaps with the current terms of reference. The main differences are:
 - a. Executive members are not allowed to be members of the board.

- b. A focus on Strategic Risk (this is included into our committee work programme but not in the terms of reference).
- 8. The role of the Audit committee is to be independent of an organisation's Executive hence the requirement to not to have Executive Members on the board. This is common to other best practice terms of reference.

CIPFA's (Chartered Institute for Public Finance and Accountancy) Position Statement on Audit Committees in Local Authorities and Police 2018 (Appendix 3)

- 9. Like the National Audit Office example this stresses independence from the Executive and in this case also includes Scrutiny.
- 10. This also includes a specific role in Treasury Management (in clause 5). The exact reference in the 2021 Treasury Management Code of Practice is for an Audit Committee or Scrutiny Committee to review the Treasury Management policy and procedures. The Scrutiny Committee cover this role.
- 11. It is likely that CIPFA will publish updated guidance for audit committees in 2022.

Conclusions

- 12. One of the requirements of the Audit Committee functions is to be independent of the Executive and other committee, which is inconsistent with the current membership requirements.
- 13. Strategic risk is included in the work programme but not clearly reflected in the Terms of reference of the Committee.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION
--

14. None

POLICY IMPLICATIONS

15. None

<p>FURTHER INFORMATION:</p> <p>PLEASE CONTACT:</p> <p>ALSO:</p>	<p>Ian Evenett (Internal Audit Manager) Ext 7175</p> <p>Salma Hussain (Auditor) Ext 3152</p>
--	--

Appendix 1

Current Terms of Reference

Extracts from the Council's Constitution Part 3 Scheme of Delegation (28th February 2022)

[Burnley Council : Agenda for Constitution on Monday, 28th February, 2022, 10.49 am \(modern.gov.co.uk\)](http://modern.gov.co.uk)

Section 1 sub-Section c)

c) Audit Committee and Standards Committee
1. The promotion and maintenance of high standards of conduct within the Council - To advise the Council on the adoption or revision of its code of conduct. To monitor and advise the Council about the operation of its code of conduct in the light of best practice, changes in the law,
2. Assistance to members and co-opted members of the authority - To ensure that all members of the Council have access to training in all aspects of the member code of conduct, that this training is actively promoted, and that members are aware of the standards expected of local councillors under the code
3. Other functions - Functions relating to standards of conduct of members under any provision of, or regulations made under the Local Government Act 2000 or Localism Act 2011.
4. To consider audit activity, the regulatory framework, and accounts.
Monitoring Officer
1. To grant dispensations under the Localism Act 2011 in consultation with the Chair of the Audit and Standards Committee

Section 2 sub-section B) Terms of Reference of Committees, Panels and Working Groups.

1. Council Functions

(f) AUDIT AND STANDARDS COMMITTEE

(Membership to include 9 elected members including an Executive Member and the Scrutiny Committee Chair and 2 independent co-optees and 2 parish co-optees

The Committee combines responsibility for overseeing the effective auditing of all the Council's processes with a separate role in ensuring the ethical propriety and good conduct of individual Councillors.

The Audit function covers both external and internal processes, the external scrutiny brought by the external auditors and the internal control of processes administered by an internal audit team. The Committee approves an annual work programme and receives regular reports on the progress of audit work and assessments.

Terms of Reference

The Audit and Standards Committee will have the following roles and functions:

Audit Activity

- a) To consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
- b) To consider summaries of internal audit reports
- c) To consider reports dealing with the management and performance of the providers of internal audit services
- d) To consider reports from internal audit on agreed recommendations not implemented within a reasonable timescale.
- e) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance
- f) To consider specific reports as agreed with the external auditor.
- g) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- h) To appoint the council's external auditor
- i) To commission work from internal and external audit.

Regulatory Framework

- a) To maintain an overview of the council's constitution in respect of Standing Orders for Contracts, Financial Procedure Rules and codes of conduct and behaviour.
- b) To review any issue referred to it by the chief executive or the Chief Operating Officer, or any council body.
- c) To monitor the effective development and operation of risk management and corporate governance in the council
- d) To monitor council policies on whistleblowing and the anti-fraud and corruption policy and the council's complaints process
- e) To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- f) To consider reports on internal audits effectiveness.
- g) To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- h) To consider the council's compliance with its own and other published standards and controls.

Accounts

- a) 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.
- b) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Value for Money

- a) To review and monitor Council activities relating to value for money.

Standards Activity

- a) To promote and maintain high standards of conduct by Members, Co-opted Members and employees of the Council
- b) To support Members, Co-opted members and employees to observe the Council's Code of Conduct
- c) To advise, train or arrange to train Members, Co-opted Members, Parish and Town Council Members and employees of the Council on the Council's Codes
- d) To monitor and advise the Council about the operation of its Code of Conduct for Members and Employees in light of best practice, changes in the law, and government guidance
- e) To advise the Council on the adoption or revision of the Codes of Conduct, including the adoption of Protocols which support high standards of conduct by Members and employees of the Council
- f) To actively engage with the Borough, Parish and Town Councils on the role and purpose of the Committee, governance and standards
- g) To actively engage with the public, the media and key partners on the role and purpose of the Committee, governance and standards to promote public confidence in the Council
- h) To grant dispensations to Members with disclosable interests
- i) To grant exemptions for politically restricted posts
- j) To determine complaints about Members in accordance with the Localism Act 2011 and associated Regulations and local procedures
- k) To adopt and keep under review policies and procedures for the determination of complaints about Members

Appendix 2

Example Terms of Reference for a Central Government Audit Committee

[Audit committee handbook - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

Example terms of reference

The Board has established an Audit and Risk Assurance Committee as a Committee of the Board to support them in their responsibilities for issues of risk, control and governance by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs and reviewing the reliability and integrity of these assurances.

Membership

The members of the Audit and Risk Assurance Committee are:

- non-executive Board members: [list those who are appointed to the Audit Committee]
- independent External members: [list those who are appointed to the Audit and Risk Assurance Committee; (in all cases indicate the date of appointment and when the appointment is due to end / become eligible for renewal)]
- the Audit and Risk Assurance Committee will be chaired by [name]
- the Audit and Risk Assurance Committee will be provided with a secretariat function by [name] Reporting
- the Audit and Risk Assurance Committee will formally report in writing to the Board and Accounting Officer after each meeting
- the Audit and Risk Assurance Committee will provide the Board and Accounting Officer with an Annual Report, timed to support finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year

Responsibilities

The Audit and Risk Assurance Committee will advise the Board and Accounting Officer on:

- the strategic processes for risk, control and governance and the Governance Statement
- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors
- the planned activity and results of both internal and external audit
- adequacy of management response to issues identified by audit activity, including external audit's management letter

- assurances relating to the management of risk and corporate governance requirements for the organisation
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations; and
- the Audit and Risk Assurance Committee will also periodically review its own effectiveness and report the results of that review to the Board

Rights

The Audit and Risk Assurance Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience
- procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the Board Access

The Head of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the Audit and Risk Assurance Committee.

Meetings

- the Audit and Risk Assurance Committee will meet at least four times a year. The Chair of the Audit and Risk Assurance Committee may convene additional meetings, as they deem necessary
- a minimum of [number] members of the Audit and Risk Assurance Committee will be present for the meeting to be deemed quorate
- audit and Risk Assurance Committee meetings will normally be attended by the Accounting Officer, the Finance Director, Risk Manager, Head of Internal Audit, and a representative of External Audit [add any others who may routinely attend such as representatives of sponsoring / sponsored bodies]
- the Audit and Risk Assurance Committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter
- the Audit and Risk Assurance Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters
- the Board or the Accounting Officer may ask the Audit and Risk Assurance Committee to convene further meetings to discuss particular issues on which they want the Committee's advice

Information requirements

For each meeting the Audit and Risk Assurance Committee will be provided (well ahead of the meeting) with:

- a report summarising any significant changes to the organisation's strategic risks and a copy of the strategic/corporate Risk Register
- a progress report from the Head of Internal Audit summarising:
 - work performed (and a comparison with work planned)
 - key issues emerging from the work of internal audit
 - management response to audit recommendations
 - changes to the agreed internal audit plan; and
 - any resourcing issues affecting the delivery of the objectives of internal audit
- a progress report (written/verbal) from the External Audit representative summarising work done and emerging findings (this may include, where relevant to the organisation, aspects of the wider work carried out by the NAO (National Audit Office), for example, Value for Money reports and good practice findings)
- management assurance reports; and
- reports on the management of major incidents, "near misses" and lessons learned.

As and when appropriate the Committee will also be provided with:

- proposals for the terms of reference of internal audit / the internal audit charter
- the internal audit strategy
- the Head of Internal Audit's Annual Opinion and Report
- quality Assurance reports on the internal audit function
- the draft accounts of the organisation
- the draft Governance Statement
- a report on any changes to accounting policies
- external Audit's management letter
- a report on any proposals to tender for audit functions
- a report on co-operation between internal and external audit; and
- the organisation's Risk Management strategy

The above list suggests minimum requirements for the inputs which should be provided to the Audit and Risk Assurance Committee. In some cases, more may be provided. For instance, it might be agreed that Audit and Risk Assurance Committee members should be provided with a copy of the report of every internal audit assignment, or with copies of management Stewardship Reports (or equivalents) if these are used in the organisation.

Appendix 3

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

(CIPFA (Chartered Institute for Public Finance and Accountancy))

[CIPFA support and guidance for Audit Committees | CIPFA](#)

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs (police and crime commissioners) and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

1. Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
2. The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
3. Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC (police and crime commissioners) or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
4. The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions: – oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process – promote the effective use of internal audit within the assurance framework

- consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
5. An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA (Chartered Institute for Public Finance and Accountancy), 2017)
 - providing oversight of other public reports, such as the annual report.
6. Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are: – promoting apolitical open discussion – managing meetings to cover all business and encouraging a candid approach from all participants – an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.
7. To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public

- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.