

**REPORT TO:** **AUDIT AND STANDARDS COMMITTEE**

**DATE:** **28 NOVEMBER 2018**

**TITLE:** **REVIEW OF THE EFFECTIVENESS OF THE  
AUDIT AND STANDARDS COMMITTEE AND ITS  
TERMS OF REFERENCE**

**LEAD OFFICER:** **SARAH MARSH, INTERNAL AUDIT MANAGER  
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**RECOMMENDED that:**

- A** The Committee notes the results of the review of effectiveness of the Audit and Standards Committee and agrees the proposed action plan for improvements.

**BACKGROUND**

1. The purpose of this report is to review the Audit and Standards Committee Terms of Reference and its compliance with updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The report also seeks to ensure the committee remains effective in the fulfilment of its key governance framework role.
2. The Committee reviews its Terms of Reference and effectiveness on an annual basis. This was last undertaken in 2016 with the 2017 review postponed to 2018 whilst waiting for new guidance from CIPFA.
3. The new CIPFA guidance, entitled 'Audit Committee: Practical Guidance for Local Authorities and Police', was published in the spring 2018 and replaces the 2013 edition. The 2018 edition updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. This includes new legislation affecting audit committees in combined authorities and updates to regulations and statutory guidance. The updates to the Public Sector Internal Audit Standards, and Delivering Good Governance in Local Government: Framework and associated guidance are also considered for their impact on the work of the audit committee.
4. There are changes to the core functions of the committee in relation to external audit, reflecting the new arrangements for auditor appointment and new guidance on ethical standards for auditors issued by the Financial Reporting Council. The audit committee role in relation to counter-fraud has also been updated to reflect the Code of Practice on Managing the Risk of Fraud and Corruption.
5. CIPFA's guidance also provides practical support to those wishing to evaluate their existing committee and plan improvements. The checklists provided are attached as appendices A and B to the report.

## **ISSUES/PROPOSALS**

### **Terms of Reference Review**

6. Internal Audit has carried out a comparison of the Committee's current Terms of Reference (attached as Appendix C to the report) with the 2018 CIPFA model terms of reference and benchmarking against Broxbourne and Epping Forest. On this basis the current terms of reference are still fit for purpose.

### **Approach to the Effectiveness Review**

7. The effective operation of the Committee forms a key element of the Council's assurance framework. An audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the Council's business.
8. Using the recommended practice in the CIPFA audit committee guidance will help the committee achieve a good standard of performance. Using the checklists provided by CIPFA supports an assessment against recommended practice to inform and support the Committee. This should not be seen as a tick-box activity.
9. This review is based on guidance issued in the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police (2018 edition).

### **Previous Results**

10. Effectiveness reviews have been undertaken and reported in the past, with the last being November 2016. The 2016 review identified several areas for improvement including:
  - a) Review the Committee's terms of reference annually;
  - b) Consider the role of the Committee with regards to value for money, partnerships and the Council's approach to fraud;
  - c) Undertake a skills and knowledge analysis; and
  - d) Report back on the Committee's performance.
11. There have all been addressed as evidenced in the results section below.

### **Results of the Effectiveness Review**

12. The results of the self-assessment show that the Council is able to demonstrate compliance with recommended best practice for an effective audit committee.
13. Resulting from the attached checklists, three areas for consideration have been identified and listed in the Action Plan below:

**Table 1 – Action Plan**

Area	Description and proposed action
Audit Committee Membership	The 2018 CIPFA guidance asks local councils to consider the inclusion of at least one independent member. With the support of Member Services the Committee should consider the value of appointing an independent person, what skills, knowledge or experience such a person should bring to the Committee and how to source such a person.
Skills and knowledge analysis	A skills and knowledge analysis was last undertaken in September 2017 and should be repeated to help inform the decision regarding the appointment of an independent member.
Committee engagement	<p>The Audit Committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. CIPFA gives the following examples on how this can be achieved:</p> <ul style="list-style-type: none"> <li>• The committee focuses on a significant risk area from the risk register and invite the head of service to attend to discuss risks and explain how the risk is mitigated.</li> <li>• When reviewing an audit report with significant weaknesses or disputed recommendations then the responsible head of service should be present to answer questions directly.</li> <li>• If other action plans are monitored by committee then again involve responsible heads.</li> <li>• Invite other members on other committees such as scrutiny if the agenda covers areas of interest to them.</li> </ul>

## **IMPLICATIONS**

### **Place (Includes Sustainability)**

None specific.

**Author: Jane Greer, Head of Community Wellbeing on behalf of Graeme Bloomer, Head of Place**

### **Finance (Includes ICT)**

The Audit and Standards Committee has a pivotal role in how the Council delivers good governance. The purpose of the 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 annual governance process, and reviewing the effectiveness of these arrangements.

**Author: Simon Freeman, Head of Finance**

### **Housing**

None specific.

**Author: Andrew Murray, Head of Housing**

### **Community Wellbeing (Includes Equalities and Social Inclusion)**

None specific.

**Author: Jane Greer, Head of Community Wellbeing**

### **Governance (Includes HR)**

To comply with CIPFA guidelines and as part of the process for gathering evidence for the production of the Annual Governance Statement, the Council is required to review the effectiveness of its Audit Committee. This review ensures that the Council fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

The Accounts and Audit (England Regulations) 2015 requires that a relevant authority 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 objective;
- Ensures that the financial and operational management of the authority is effective; and
- Includes effective arrangements for the management of risk.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where the audit committee undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

**Author: Colleen O'Boyle, Interim Head of Governance**

### **Appendices**

Appendix A – Good Practice Self-Assessment Checklist

Appendix B – Audit Committee Effectiveness Checklist

Appendix C – Current Terms of Reference for Harlow Audit and Standards Committee

### **Background Papers**

CIPFA Audit Committees Practical Guidance for Local Authorities and Police (edition 2018)

### **Glossary of terms/abbreviations used**

CIPFA – The Chartered Institute of Public Finance and Accountancy.

