

REPORT TO: Audit and Governance Board

DATE: 20 November 2024

REPORTING OFFICER: Director - Finance

PORTFOLIO: Corporate Services

SUBJECT: Review of Audit and Governance Board
Terms of Reference

WARD(S) Borough wide

1.0 PURPOSE OF THE REPORT

1.1 The terms of reference of the Audit and Governance Board are set out in the Council Constitution and govern which matters are within the remit of the Board. It is best practice for the Board's terms of reference to be subject to regular review to ensure that they remain fit for purpose and are compliant with the latest guidance.

1.2 The review of the terms of reference has also been prompted by the recent external assessment of the Council's internal audit arrangements, which included a recommendation that the Board's terms of reference be aligned with that suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.3 The Council's external auditor, in the Annual Audit Report for the year ended 31 March 2024, also included an improvement recommendation that the Audit and Governance Board should enhance its effectiveness by appointing independent members to provide expertise in areas like transformation. It was also suggested that the Council review the Board's term of reference in line with best practice.

1.3 A proposed terms of reference for the Board has therefore been developed in accordance with the model terms of reference recommended by CIPFA in its publication 'Audit Committees: Practical Guidance for Local Authorities and Police (2022 edition)'.

2.0 RECOMMENDATIONS:

That the Board:

- 1) considers the revised terms of reference for the Board, which aligns with CIPFA recommended practice; and**
- 2) delegates authority to the Chair to finalise any proposed amendments prior to submission to Full Council for approval.**

3.0 SUPPORTING INFORMATION

- 3.1 The Audit and Governance Board acts as the Council's audit committee. CIPFA defines the purpose of an audit committee as being to provide those charged with governance, independent and high-level focus on the adequacy of governance, risk, and control arrangements. By doing this, and by overseeing both internal and external audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3.2 CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022 represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt.
- 3.3 CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting, and internal audit.
- 3.4 The role of an audit committee also helps to satisfy the wider requirement for sound financial management, as set out in the Accounts and Audit Regulations. This requirement is to ensure that the financial management of the body is adequate and effective. It is also to ensure that the body has a sound system of internal control, including arrangements for the management of risk, to facilitate the effective exercise of that body's functions.
- 3.5 In addition, Section 151 of the Local Government Act 1972 requires the Council to make arrangements for the proper administration of its financial affairs. In discharging sound financial management, the Section 151 Officer requires an effective audit committee to evaluate the effectiveness of the organisation's risk management, control, and governance processes.
- 3.6 Revised terms of reference are proposed for the Board based upon the best practice model guidance developed by CIPFA. These can be found at Appendix A.
- 3.7 Under the proposals, the core functions of the Audit and Governance Board remain unchanged, although some areas of responsibility are broken down into more detail in accordance with CIPFA recommended practice. The Board's role remains focused on ensuring there is sufficient assurance over the Council's governance, risk management and control arrangements. The Board also retains responsibility for oversight of both internal and external audit, together with financial reporting and governance reporting.

- 3.8 The most notable proposed changes to the terms of reference relate to the composition of the Board, and clarifying its meeting and reporting arrangements.
- 3.9 In accordance with the CIPFA guidance, it is proposed that:
- Members of the Board shall not include any members of the Executive Board to ensure independence.
 - The Chair and Vice Chair of the Board shall be independent of Executive Board and shall not be a Chair of a Policy and Performance Board.
 - The Board will be given the option to appoint a qualified co-opted independent member to provide additional expertise.
 - The Board shall comprise seven elected members (CIPFA recommends a committee size of no more than eight members).
 - The circumstances under which additional meetings of the Board may be convened are formally set out in the terms of reference.
 - Opportunity is provided for the Board to meet in private with internal and external audit, if required.
 - The Chair of the Board shall report directly to Full Council.
 - A statement of purpose is added to provide a summary of the key responsibilities of the Board.
- 3.10 It should be noted that the revised terms of reference retains the Board's responsibility for oversight of member standards. This is a departure from the CIPFA model. It is however an arrangement that is also in place at various other local authorities. The Board's responsibility for oversight of member standards has worked well, and is not considered to have compromised its role as the Council's audit committee.
- 3.11 Subject to agreement by the Board, the revised terms of reference will be put forward as part of the current year's review of the Council Constitution. Formal approval of the terms of reference will then be sought from Full Council in May 2025, with the new arrangements being implemented in the next municipal year.

4.0 **POLICY IMPLICATIONS**

4.1 The proposed amendments to the terms of reference have been made with reference to CIPFA guidance. There are no direct policy implications.

5.0 **FINANCIAL IMPLICATIONS**

5.1 There are no direct financial implications associated with the recommendations in this report. The proposed revisions to the terms of reference will support the Audit and Governance Board in having effective oversight of the Council's financial governance arrangements.

6.0 **IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 **Improving Health, Promoting Wellbeing and Supporting Greater Independence**

Effective governance, risk management and control arrangements are important in terms of the delivery of all the Council's priorities. Updating the terms of reference of the Audit and Governance Board in line with best practice supports the Board's role in ensuring that there is sufficient assurance over these arrangements.

6.2 **Building a Strong, Sustainable Local Economy**

See 6.1

6.3 **Supporting Children, Young People and Families**

See 6.1

6.4 **Tackling Inequality and Helping Those Who Are Most In Need**

See 6.1

6.5 **Working Towards a Greener Future**

See 6.1

6.6 **Valuing and Appreciating Halton and Our Community**

See 6.1

7.0 **RISK ANALYSIS**

7.1 The proposed amendments to the terms of reference support the Audit and Governance Board's role in reviewing and providing assurance over the Council's risk management arrangements.

8.0 **EQUALITY AND DIVERSITY ISSUES**

8.1 There are no direct equality and diversity issues arising from this report. The report focuses on governance matters and the recommendations do not directly impact on residents.

9.0 **CLIMATE CHANGE IMPLICATION**

9.1 None arising from this report.

10.0 **LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

Document	Place of Inspection	Contact
CIPFA – Audit Committees: Practical Guidance for Local Authorities and Police (2022 Edition)	Halton Stadium, Widnes	Merv Murphy

**PROPOSED AMENDMENTS TO THE AUDIT AND GOVERNANCE BOARD
TERMS OF REFERENCE**

Composition, meetings, and reporting arrangements

1. The membership of the Board shall not include any members of the Executive Board.
2. The Audit and Governance Board will comprise:
 - Seven elected members in accordance with the current political balance rules.
 - A qualified independent member, who will be a non-voting member.
3. A minimum of three elected members of the Audit and Governance Board must be present for the meeting to be deemed quorate.
4. The Chair and Vice Chair of the Audit and Governance Board will be independent of the Executive Board and will not be a Chair of a Policy and Performance Board.
5. The Audit and Governance Board shall meet four times a year. The Chair of the Board may convene additional meetings as they deem necessary.
6. The Head of Paid Service, the Section 151 Officer, the Monitoring Officer, or the Head of Internal Audit may ask the Chair of the Audit and Governance Board to convene further meetings to discuss issues on which they wish to seek the Board's advice.
7. Meetings will be open to the public, but the public may be excluded where information of an exempt nature is being discussed.
8. The Board, External Audit, and the Head of Internal Audit shall have the opportunity for private discussions without the Section 151 Officer or other officers present if issues need exploring in such a forum.
9. The Chair of the Audit and Governance Board reports to Full Council, as necessary.

Statement of purpose

10. The Board'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.
11. The Board has responsibility for 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.

12. The Board also has responsibility for oversight of member standards.

Powers and duties

Governance, risk, and control

13. To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of corporate governance.
14. To monitor the effective development and operation of risk management in the Council.
15. To monitor progress in addressing risk-related issues reported to the Board.
16. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
17. To consider reports on the effectiveness of financial management arrangements including compliance with CIPFA's Financial Management Code.
18. To consider the Council's arrangements to secure value for money, including the Council's procurement arrangements, and review assurances and assessments on the effectiveness of these arrangements.
19. To review the governance and assurance arrangements for significant partnerships or collaborations.

Governance reporting

20. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the Head of Internal Audit's opinion.
21. To consider whether the annual evaluation of the Annual Governance Statement fairly concludes that the arrangements are fit for purpose, supporting the achievement of the Council's objectives.

Financial reporting

22. To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
23. To review and approve the annual statement of accounts and specifically to consider whether appropriate accounting policies have been followed, and whether there are concerns arising from the financial statements or audit process that need to be brought to the attention of the Council.

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

External Audit

25. To recommend to Full Council the appointment of the Council's External Auditors under the Local Audit and Accountability Act 2014 and provide assurance that the External Audit team's independence is safeguarded.
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 support the quality and depth of external audit process and to ensure that it gives value for money.
29. To commission additional work from external audit as required.
30. To advise and recommend on the effectiveness of relationships between external audit and internal audit, and other inspection agencies or relevant bodies.

Internal Audit

31. To approve the internal audit charter.
32. To review proposals made in relation to the provision of internal audit services and to make recommendations
33. To approve the risk-based internal audit plan, including internal audit's resource requirement, 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 of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.
37. To consider reports from the Head of Internal Audit on internal audit's performance, including the performance of external providers of internal audit services if applicable. This will include:
 - Updates on the work of internal audit including key findings, issues of concern, and action in hand as a result of internal audit work

- Reports on the results of the Quality Assurance and Improvement Programme
 - Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application
38. To consider the Head of Internal Audit's annual report, specifically:
- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement (to provide assurance over the reliability of the conclusions of internal audit)
 - 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 (to assist the Board in reviewing the Annual Governance Statement)
39. To consider summaries of specific internal audit reports.
40. 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 Council, or there are concerns about progress with the implementation of agreed actions.
41. To contribute to the external assessment of internal audit that takes place at least once every five years.
42. To support the development of effective communication with the Head of Internal Audit, including providing free and unfettered access to the Chair of the Audit and Governance Board.

Counter fraud and corruption

43. To review the assessment of risks and potential harm to the Council from fraud and corruption.
44. To review, approve and monitor the Council's counter-fraud policies and strategies, counter fraud activity, and associated resourcing.

Standards

45. To promote and maintain high standards of conduct by the members and co opted members of the authority.
46. To assist members and co-opted members of the authority to observe the authority's Code of Conduct.
47. To advise the authority on the adoption or revision of the Code of Conduct.

48. To monitor the operation of the authority's Code of Conduct.
49. To advise, train or arrange to train members of the authority on matters relating to the authority's Code of Conduct.
50. To maintain a Hearings Panel (comprised of 3 members of the Board drawn from 2 political groups if possible) to hear allegations made against an Elected Member or a Parish Councillor within the Borough Council's area.
51. To investigate or arrange investigation of any complaints made by Members, Officers, or members of the public in relation to the authority's Code of Conduct.
52. To decide disciplinary matters within the competence of the Committee.
53. To consider applications from local authority employees for exemption from political restriction in respect of their posts.
54. Where appropriate, to issue directions requiring a local authority to include a post in the list of politically restricted posts it maintains.
55. To give general advice, following consultation with appropriate parties, on the application of criteria for designation of a politically restricted post.
56. To consider applications for dispensations from Members where appropriate.