

# NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

27 JUNE 2022

### AUDIT COMMITTEE TERMS OF REFERENCE / REVIEW OF EFFECTIVENESS / CO-OPTED MEMBERS

#### Report of the Corporate Director – Strategic Resources

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To consider whether any changes to the Audit Committee's Terms of Reference or other actions are required to improve the Committee's effectiveness.
- 1.2 To consider an extension of the term of the existing independent co-opted members of the Audit Committee.

#### 2.0 BACKGROUND

- 2.1 It is best practice to formally review the Committee's Terms of Reference on a regular basis and to make changes as necessary. This report therefore seeks to identify any further changes that may now be required as a result of recent legislation, developments in recommended best practice or changes in the Council's governance arrangements. Members' views are also sought on whether the current Terms of Reference enable the Committee to continue to discharge its responsibilities effectively.
- 2.2 The Committee last reviewed its Terms of Reference at its meeting on 22 March 2021. At that time no changes were considered necessary.
- 2.3 Since then there have been no significant changes in legislation or Codes of Practice. However, the Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to issue updated guidance for audit committees in local government within the next few months. In anticipation of this CIPFA has recently published a position statement which sets out the recommended purpose, model, core functions and membership of audit committees. CIPFA expects all local government bodies to adopt the principles set out in this statement. The 2022 position statement replaces the 2018 edition and is attached as **appendix 1** for information.
- 2.4 CIPFA is now recommending that local authority audit committees should now include at least two co-opted independent members to provide appropriate technical expertise.
- 2.5 The Government has also recently published its response to the Sir Tony Redmond review of the effectiveness of external audit and the transparency of financial reporting in local government. The review was originally commissioned by the

Government in response to concerns about timeliness and capacity in the external audit sector. The report itself was published in September 2020 and contained a number of recommendations. The Government is now proposing that:

- the new Audit, Reporting and Governance Authority (ARGA) will become the regulator and system leader for external audit in local government. ARGA will also take on responsibility for preparing the Audit Code of Practice from the National Audit Office (NAO)
- ARGA will take on a similar role for the audit of health bodies (Clinical Commissioning Groups and Health Trusts)
- audit committees will be made mandatory in local government
- there will be a requirement to appoint at least one independent member to audit committees
- the Department for Levelling Up, Housing and Communities (DLUHC) will support the Local Government Association (LGA) to provide a programme of training for audit committee chairs and members
- to improve capacity in the audit sector, DLUHC will also work with ARGA and some of the firms to develop a workforce strategy

2.6 A number of these proposals will require legislation and the establishment of ARGA will take time so the changes will not be immediate. DLUHC will also need to wait until the current procurement exercise for the next round of external audit contracts is concluded by Public Sector Audit Appointments Limited (PSAA). The new contracts will cover the 2023/24 – 2027/28 audit years and the outcome will not be known until the autumn. We will therefore keep the Audit Committee updated of developments.

### **3.0 TERMS OF REFERENCE**

3.1 The current Terms of Reference of the Committee are attached as **appendix 2**. No further changes are proposed until the detailed guidance is published by CIPFA. If any changes are then considered necessary these will be brought to the following meeting of this Committee for consideration.

### **4.0 REVIEW OF AUDIT COMMITTEE EFFECTIVENESS**

4.1 The last full review of the Committee's effectiveness was completed in early 2020. The review concluded that the Committee adds value and is generally effective in promoting good governance and the maintenance of appropriate risk management and control arrangements within the Council. A number of areas of good practice were identified including the ability to question Corporate Directors, the appointment of independent members to the Committee and the time allowed to discuss substantive matters. The following issues were identified as areas requiring change or improvement:

- identifying and addressing gaps in the knowledge and skills of Committee Members
- adopting a more structured approach to training for Committee Members

- doing more to explain the role and purpose of the Committee to the rest of the Council, and the relationship between the Committee and the Council's Executive, Scrutiny functions and Standards Board
- helping Members of the Committee to engage more effectively with the discussion on relevant matters and to provide challenge where necessary (ie doing more to help Members understand how the Council operates and what they are being asked to consider)
- ensuring the Committee continues to fulfil its purpose which requires Members to seek assurance but keep discussions sufficiently high level (ie to focus on overseeing and monitoring the Council's governance, risk management and control arrangements)
- reviewing the voting rights of the independent co-opted Members (subject to any legal restrictions)

4.2 Work has been ongoing to develop a more structured programme of training for the Committee. An induction session was provided for the new members of the Committee on 6 June 2022 and further subject specific training is planned. We also plan to reinstate the Committee's periodic private meetings with the external and internal auditors.

## **5.0 INDEPENDENT CO-OPTED MEMBERS**

- 5.1 The Constitution allows for the appointment of up to 3 independent co-opted members to the Committee. The term of appointment is 4 years from 31 July in the year that the County Council has elections. This date was originally chosen to allow the annual Statement of Accounts to be prepared and approved before any new co-opted members were appointed, hence avoiding any loss of knowledge or expertise. The term of the current co-opted members is therefore due to finish on 31 July 2022.
- 5.2 However, there are two issues to consider. Firstly, local government reorganisation is going to increase the burden on the audit committee in the short-term because of the need to oversee the audit and approval of each of the North Yorkshire district council Statement of Accounts, in addition to those of the County Council. Secondly, the Covid-19 pandemic has resulted in delays in the audit and approval of local government accounts in general.
- 5.3 Given these issues and to avoid any loss of knowledge or expertise at this crucial time it is recommended that the Audit Committee agrees to recommend to full Council an extension of the term of the existing co-opted members to 30 November 2023. This would be a one-off extension with any subsequent appointments reverting to the existing 4 year cycle aligned to the Council elections. The proposed extension would require the approval of full Council.
- 5.4 Any extension would also be dependent on each of the existing co-opted members remaining eligible for appointment. For example, they are not affiliated to any political party and remain resident in or have some other connection with North Yorkshire.

## **6.0 RECOMMENDATION**

Members are asked to consider:

- 6.1 whether any changes are required to the Terms of Reference of the Committee at this time.
- 6.2 whether the existing term of the independent co-opted members should be extended to 30 November 2023 or some other date, subject to the approval of full Council.

GARY FIELDING  
Corporate Director – Strategic Resources

County Hall  
NORTHALLERTON

14 June 2022

### **Background Documents:**

None



## CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

### Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

### Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives.

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.

The 2022 edition of the position statement replaces the 2018 edition.

**The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.**

## CIPFA's Position Statement 2022: Audit committees in local authorities and police

### Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

### Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

## Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

### Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

### Financial and governance reporting

- Be satisfied that the authority's accountability 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.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

### Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and conformance to professional standards
  - 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 inspection agencies 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 organisation, encouraging openness to challenge, review and accountability.

### Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills 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
  - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

## Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

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 chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

## Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

# AUDIT COMMITTEE

## TERMS OF REFERENCE

1. In respect of **Internal Audit**

- ◆ to approve the Internal Audit Charter, Annual Audit Plan and performance criteria for the Internal Audit Service.
- ◆ to review summary findings and the main issues arising from internal audit reports and seek assurance that management action has been taken where necessary.
- ◆ to review the effectiveness of the anti-fraud and corruption arrangements throughout the County Council.
- ◆ consider the annual report from the Head of Internal Audit.
- ◆ to obtain assurance that the work of internal audit conforms to the Public Sector Internal Audit Standards.

2. In respect of **External Audit**

- ◆ to ensure the independence of External Audit is maintained
- ◆ to review the annual audit plan and monitor its delivery

3. To review, and recommend to the Executive, changes to **Contract, Finance and Property Procedure Rules**.

4. In respect of **financial statements**

For both the County Council and the North Yorkshire Pension Fund

- ◆ to approve the respective annual Statements of Final Accounts
- ◆ to receive and review the Annual Audit Letters and associated documents issued by the External Auditor
- ◆ to review changes in accounting policy.

5. In respect of **Corporate Governance**

- ◆ to assess the effectiveness of the County Council's Corporate Governance arrangements
- ◆ to review progress on the implementation of Corporate Governance arrangements throughout the County Council
- ◆ to approve Annual Governance Statements for both the County Council and the North Yorkshire Pension Fund

- ♦ to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct or both Members and Officers
- ♦ to work with the Standards Committee to promote good ethical standards within the County Council
- ♦ to review the arrangements in place for ensuring good governance in the County Council's key partnerships and owned companies

6. In respect of **Risk Management**

- ♦ to assess the effectiveness of the County Council's Risk Management arrangements
- ♦ to review progress on the implementation of Risk Management throughout the County Council.

7. In respect of **Information Governance**

- ♦ to review all corporate policies and procedures in relation to Information Governance
- ♦ to oversee the implementation of Information Governance policies and procedures throughout the County Council.

8. In respect of **Treasury Management**

- ♦ to be responsible for ensuring effective scrutiny of the County Council's Treasury Management strategy and policies as required by the CIPFA Treasury Management Code of Practice
- ♦ to review these Treasury Management strategies, policies and arrangements and make appropriate recommendations to the Executive.

9. In respect of **Value for Money**

- ♦ to have oversight of the arrangements across the County Council in securing Value for Money

10. To consider any other relevant matter referred to it by the County Council, Executive or any other Committee. In addition any matter of concern can be raised by this Committee to the full County Council, Executive or any other Member body.

11. To exercise all functions in relation to the making and changing of policy relating to such audit and counter-fraud matters which fall within the remit of the Committee (save as may be delegated otherwise).

12. To periodically review the effectiveness of the Audit Committee itself.

13. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.