

# NORTH YORKSHIRE COUNCIL

## AUDIT COMMITTEE

11 DECEMBER 2023

### AUDIT COMMITTEE TERMS OF REFERENCE / REVIEW OF EFFECTIVENESS

#### Report of the Corporate Director – Resources

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To consider whether any changes are required to the Audit Committee's Terms of Reference. Members are also asked to consider the benefits of conducting a review of the Committee's effectiveness, and the possible timing of such a review.

#### 2.0 BACKGROUND

- 2.1 The Committee's current Terms of Reference were reviewed and updated as part of the process to prepare for local government reorganisation.
- 2.2 It is best practice to formally review the 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.
- 2.3 As well as being a requirement of the Terms of Reference, the latest guidance on audit committees in local government (**Appendix 1**), published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in October 2022, recommends that audit committees should complete a periodic self-assessment of their effectiveness. Alternatively, an independent review can be undertaken. The guidance includes a checklist to support the self-assessment, enabling the Committee to highlight the areas where it has made an impact on the Council's governance, risk management, control and audit arrangements. The outcomes of this exercise will help to support the preparation of the audit committee's future work programme, training plans and the annual report.

#### 3.0 TERMS OF REFERENCE

- 3.1 The current Terms of Reference are attached as **Appendix 2**. No further changes are proposed at this time although Members' views are sought on whether the Terms of Reference are enabling the Committee to discharge its responsibilities effectively.

#### 4.0 REVIEW OF AUDIT COMMITTEE EFFECTIVENESS

- 4.1 Members views are also sought on whether a self-assessment review of the audit committee's effectiveness should be completed, and if so, when such an exercise would best be undertaken.

- 4.2 If there is support for the completion of a self-assessment, the Committee will need consider whether all Members participate in the exercise or whether a separate working party is established to conduct the review. It is recommended that any review should be facilitated by officers.

## **5.0 RECOMMENDATION**

Members are asked to consider:

- 5.1 whether any changes are required to the current Terms of Reference of the Committee.
- 5.2 whether it would be beneficial to complete a self-assessment exercise of the Committee's effectiveness, and if so, what the next steps should be.

**Appendix 1** - Guidance on audit committees in local government - The Chartered Institute of Public Finance and Accountancy (CIPFA) October 2022

**Appendix 2** - Audit Committee Terms of Reference

GARY FIELDING  
Corporate Director – Resources

County Hall  
NORTHALLERTON

20 November 2023

**Background Documents:**

None

# Evaluating the impact and effectiveness of the audit committee

An audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'.

The improvement tool below can be used to support a review of effectiveness. It identifies the broad areas where an effective audit committee will have impact.

**Figure 1: The influential audit committee**



The table includes examples of what the audit committee might do to have impact in each of these areas.

The third area includes key indicators that might be expected to be in place if arrangements are in fact effective. These indicators are not directly within the control of the audit committee, as it is an advisory body. They do provide an indication that the authority has put in place adequate and effective arrangements, which is the purpose of the committee.

Use the tool for discussion and evaluation of the strengths and weakness of the committee, identifying areas for improvement.

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
<p><b>Promoting the principles of good governance and their application to decision making.</b></p>	<ul style="list-style-type: none"> <li>• Supporting the development of a local code of governance.</li> <li>• Providing a robust review of the AGS and the assurances underpinning it.</li> <li>• Supporting reviews/audits of governance arrangements.</li> <li>• Participating in self-assessments of governance arrangements.</li> <li>• Working with partner audit committees to review governance arrangements in partnerships.</li> </ul>	<ul style="list-style-type: none"> <li>• Elected members, the leadership team and senior managers all share a good understanding of governance, including the key principles and local arrangements.</li> <li>• Local arrangements for governance have been clearly set out in an up-to-date local code.</li> <li>• The authority’s scrutiny arrangements are forward looking and constructive.</li> <li>• Appropriate governance arrangements established for all collaborations and arm’s-length arrangements.</li> <li>• The head of internal audit’s annual opinion on governance is satisfactory (or similar wording).</li> </ul>	

<b>Contributing to the development of an effective control environment.</b>	<ul style="list-style-type: none"> <li>• Encouraging ownership of the internal control framework by appropriate managers.</li> <li>• Actively monitoring the implementation of recommendations from auditors.</li> <li>• Raising significant concerns over controls with appropriate senior managers.</li> </ul>	<ul style="list-style-type: none"> <li>• The head of internal audit's annual opinion over internal control is that arrangements are satisfactory.</li> <li>• Assessments against control frameworks such as CIPFA's FM Code have been completed and a high level of compliance identified.</li> <li>• Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement.</li> </ul>
<b>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</b>	<ul style="list-style-type: none"> <li>• Reviewing risk management arrangements and their effectiveness, eg risk management maturity or benchmarking.</li> <li>• Monitoring improvements to risk management.</li> <li>• Reviewing accountability of risk owners for major/strategic risks.</li> </ul>	<ul style="list-style-type: none"> <li>• A robust process for managing risk is evidenced by independent assurance from internal audit or external review.</li> </ul>
<b>Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</b>	<ul style="list-style-type: none"> <li>• Reviewing the adequacy of the leadership team's assurance framework.</li> <li>• Specifying the committee's assurance needs, identifying gaps or overlaps in assurance.</li> <li>• Seeking to streamline assurance gathering and reporting.</li> <li>• Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.</li> </ul>	<ul style="list-style-type: none"> <li>• The authority's leadership team have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies.</li> </ul>
<b>Supporting effective external audit, with a focus on high quality and timely audit work.</b>	<ul style="list-style-type: none"> <li>• Reviewing and supporting external audit arrangements with focus on independence and quality.</li> <li>• Providing good engagement on external audit plans and reports.</li> <li>• Supporting the implementation of audit recommendations.</li> </ul>	<ul style="list-style-type: none"> <li>• The quality of liaison between external audit and the authority is satisfactory.</li> <li>• The auditors deliver in accordance with their audit plan, and any amendments are well explained.</li> <li>• An audit of high quality is delivered.</li> </ul>

<p><b>Supporting the quality of the internal audit activity, in particular underpinning its organisational independence.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing the audit charter and functional reporting arrangements.</li> <li>• Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements.</li> <li>• Actively supporting the quality assurance and improvement programme of internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Internal audit that is in conformance with PSIAS and LGAN (as evidenced by the most recent external assessment and an annual self-assessment).</li> <li>• The head of internal audit and the organisation operate in accordance with the principles of the CIPFA <a href="#">Statement on the Role of the Head of Internal Audit (2019)</a>.</li> </ul>
<p><b>Aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing how the governance arrangements support the achievement of sustainable outcomes.</li> <li>• Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</li> <li>• Reviewing the effectiveness of performance management arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives.</li> <li>• The authority's arrangements to review and assess performance are satisfactory.</li> </ul>
<p><b>Supporting the development of robust arrangements for ensuring value for money.</b></p>	<ul style="list-style-type: none"> <li>• Ensuring that assurance on value-for-money arrangements is included in the assurances received by the audit committee.</li> <li>• Considering how performance in value for money is evaluated as part of the AGS.</li> <li>• Following up issues raised by external audit in their value-for-money work.</li> </ul>	<ul style="list-style-type: none"> <li>• External audit's assessments of arrangements to support best value are satisfactory.</li> </ul>
<p><b>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</b></p>	<ul style="list-style-type: none"> <li>• Reviewing arrangements against the standards set out in the <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (CIPFA, 2014).</li> <li>• Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</li> <li>• Assessing the effectiveness of ethical governance arrangements for both staff and governors.</li> </ul>	<ul style="list-style-type: none"> <li>• Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements.</li> </ul>

**Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.**

- Working with key members/the PCC and chief constable to improve their understanding of the AGS and their contribution to it.
  - Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of plain English.
  - Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency.
  - Publishing an annual report from the committee.
- The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality.
  - The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion.
  - The authority has published its financial statements and AGS in accordance with statutory guidelines.
  - The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements.

## OVERALL QUESTIONS TO CONSIDER

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- 1 Does the committee proactively seek assurance over the key indicators?
- 2 How proactive is the committee in responding to aspects of governance, risk, control and audit that need change or improvement?
- 3 Are recommendations from the committee taken seriously by those responsible for taking action?

## REPORTING RESULTS

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The outcome of the review can be used to inform the committee's annual report.



## **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 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 Procurement and Contract, Finance and Property Procedure Rules.

4. In respect of **financial statements**

For both the 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 Council's Corporate Governance arrangements
- to review progress on the implementation of Corporate Governance arrangements throughout the Council
- to approve Annual Governance Statements for both the Council and the North Yorkshire Pension Fund
- to liaise, as necessary, with the Standards and Governance Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers
- to work with the Standards and Governance Committee to promote good ethical standards within the Council
- to review the arrangements in place for ensuring good governance in the Council's key partnerships and owned companies

6. In respect of **Risk Management**

- to assess the effectiveness of the Council's Risk Management arrangements.

- to review progress on the implementation of Risk Management throughout the 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 Council.
8. In respect of **Treasury Management**
- to be responsible for ensuring effective scrutiny of the 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 Council in securing Value for Money.
10. To consider any other relevant matter referred to it by the Council, Executive or any other Committee. In addition any matter of concern can be raised by this Committee to the full 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.