

## Part D – AUDIT COMMITTEE TERMS OF REFERENCE

### 1. General

- 1.1 The Audit Committee is a key component of the Council’s governance framework. Its 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. The Audit 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.
- 1.2 The Audit Committee is directly accountable to Full Council. It is independent of both the executive and the scrutiny functions and is a key advisory committee providing independent oversight, recommendations, opinions and influence on the matters for which it is responsible. To assist the Audit Committee in fulfilling its role, it has a right of access to and is expected to engage constructively with other committees and functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups. The Audit Committee also has the right to request reports and seek assurances from relevant officers.
- 1.3 The terms of reference will be formally approved by the Council.
- 1.4 These terms of reference shall be reviewed by the Council on the advice of the Committee and on a regular basis to ensure that they remain fit for purpose and in accordance with any relevant regulations and guidance. Any revisions will be agreed by the Council and by the Committee.

### 2. Membership, Chairmanship and Quorum

|                                   |   |
|-----------------------------------|---|
| Number of Members                 | 15 (includes up to 2 Independent members)                                   |
| Substitute Members Permitted      | Yes, provided they have met the training requirement set out in paragraph 7 |
| Political Balance Rules apply     | Yes   |
| Appointments/Removals from Office | By resolution of full Council   |
| Restrictions on Membership        | Executive members and their deputies may not be a member of this Committee  |

|  |                     |
|--|---------------------|
| Restrictions on Chairmanship/Vice-Chairmanship | None                |
| Quorum   | Five voting members |
| Number of ordinary meetings per Council Year   | At least 4 per year |

### 3. Responsibilities of the Chair

3.1 The Chair is responsible for:

- (a) ensuring the Committee delivers its purpose as set out in the Committee's terms of reference;
- (b) the arrangements for meetings of the Committee;
- (c) ensuring that Committee meetings are productive and effective and that opportunity is provided for the views of all Committee members to be expressed and considered; and
- (d) seeking to achieve the consensus of all Committee members on the business presented to the Committee and ensure that decisions are properly put to a vote when that cannot be reached.

### 4. Definitions

**AGS** means the Council's Annual Governance Statement

**CIPFA Guidance** means the following documents as amended or updated from time to time:

- CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022
- Audit Committees: practical guidance for local authorities and police (2022 edition – CIPFA) - The audit committee member in a local authority
- Audit Committees: practical guidance for local authorities and police (2022 edition – CIPFA) - Guiding the audit committee: Supplement to the audit committee member guidance

**LGAN** means the Local Government Application Note supporting the **PSIAS**

**PSAA** means Public Sector Audit Appointments Ltd

**PSIAS** means the Public Sector Internal Audit Standards

**QAIP** means the Internal Audit Quality Assurance and Improvement Programme

### 5. Terms of Reference

5.1 As set out in the CIPFA Guidance, the Audit Committee's principal duties are:

## **Governance, risk and control**

- To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
- To monitor the effective development and operation of risk management in the council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the counter fraud strategy, actions and resources.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

## **Financial and governance reporting**

### **Governance reporting**

- To review the **AGS** prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
- To consider whether the annual evaluation for the **AGS** fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

### **Financial reporting**

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- 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.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

## **Arrangements for audit and assurance**

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

### **External audit**

- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by **PSAA** or the authority's auditor panel as appropriate.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To consider additional commissions of work from external audit.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
- To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

### **Internal audit**

- To approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These 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
- regular reports on the results of the **QAIP**
- reports on instances where the internal audit function does not conform to **PSIAS** and **LGAN**, considering whether the non-conformance is significant enough that it must be included in the **AGS**.
- To consider the head of internal audit's annual report, including:
  - the statement of the level of conformance with **PSIAS** and **LGAN** and the results of the **QAIP** that support the statement (these will indicate 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 (these will assist the committee in reviewing the **AGS**).
- To consider summaries of specific internal audit reports as requested.
- 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 authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the **QAIP** and in particular to the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the **AGS** where required to do so by the accounts and audit regulations.
- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### **Accountability arrangements**

- To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- To publish an annual report on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.

5.2 In addition to the principal duties set out in 5.1 above, the Audit Committee will:

### **Annual Approvals**

- approve the annual accounts of the Council and the Annual Governance Statement.

### **Treasury Management**

- provide an overview role in Treasury Management matters including regular monitoring of treasury activity and practices.
- review and recommend the Non-Treasury Management Investment Strategy, the Capital Strategy, the Flexible Capital Receipts Strategy, the MRP Strategy, and any appropriate Prudential Indicators to Council.

5.3 In addition to the principal duties set out in 5.1 and 5.2 above, the Audit Committee may be requested to consider a review of a service, a proposed policy or other similar matters by another committee in the organisation or by one of the statutory officers, provided the matter relates to governance, risk or control and the committee does not take on a scrutiny or policy role.

Examples of where it may be helpful for the audit committee to assist include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role as set out in paragraph 1 above to help ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations under this paragraph may support the advice or recommendations of the statutory officers but cannot override that advice.

## **6. Conflicts of interest**

6.1 All members of the Committee must declare on appointment and at any such time as their circumstances change any potential conflict of interest arising as a result of their position on the Committee.

- 6.2 The Council's Monitoring Officer shall include interests registered by all members of the Committee in the published Members' and Co-opted Members' Register of Interests. All such interests are to be registered with the Monitoring Officer within 28 days of appointment to the Committee.

## **7. Knowledge and understanding including training**

- 7.1 All new members must follow an induction training plan and all members of the Committee will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.
- 7.2 The Committee has adopted a training policy and all members of the Committee are expected to meet the requirements of that policy.
- 7.3 Failure to attend training may lead to removal from the Committee.

## **8. Independent Members**

- 8.1 Up to two Independent members may be appointed by Somerset Council as non-voting members of the Committee.
- 8.2 Independent members of the Committee shall be appointed and co-opted for a three year term by the Somerset Council following an open and transparent appointments process which considers aptitude, relevant knowledge, skills and experience.
- 8.3 Independent members of the Committee may only be removed during their term of office for good cause by the Somerset Council at a Full Council meeting. It is for the Council, acting reasonably, to determine whether or not it has good cause to terminate before the normal expiry of the term of the Independent Member.

## **9. Meetings**

- 9.1 The frequency of meetings is to be determined by the Committee once it has agreed a workplan, with a minimum of four meetings annually. In addition to this, training sessions will be held as necessary to ensure that Committee members have sufficient knowledge and skills to undertake the role.
- 9.2 The Committee will meet at the Council's main offices, or another location to be agreed by the Chair. Meetings will normally be held during normal working hours at times to be agreed by the Chair.

9.3 As a committee of the Council, the **Committee Structure and Procedure Rules** set out in Part D of the Council's Constitution apply to meetings of the Committee. Committee meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated to members of the Committee and published in advance of meeting in line with Council policy. The minutes of meetings will be recorded and published in line with Council policy.

9.4 The following individuals may ask the Chair of the Committee to include items on the Committee's agenda:

- the Chair of the Committee
- any member of the Committee, including co-opted members
- the Chair of Council or any other Committee
- any statutory officer or their deputy
- the Council's external auditor
- the Council's internal auditor

## **10. Code of Conduct**

10.1 All members of the Committee will be required to formally sign up to comply with the Somerset Council Code of Conduct