

Committee/Date:	Council 27 April 2023
Report Title:	Review of Terms of Reference for the Audit and Governance Committee
Directorate:	Finance & Governance
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Wards affected:	All
Public Access	Open
Appendices	1. Revised Terms of Reference

1. SUMMARY

- 1.1 This report outlines proposed changes to the Committee's terms of reference to reflect the latest Chartered Institute of Public Finance and Accountancy (CIPFA) guidance.
- 1.2 It is good practice to review the terms of reference annually and this activity is recommended by external audit.

2. RECOMMENDATION

- 1.3 Audit and Governance Committee recommend that Council agree the revised terms of reference at Appendix 1.

3. BACKGROUND

- 1.4 CIPFA published its latest position statement (Appendix 1) for Audit Committees in Local Authorities in October 2022 alongside a revision to their suggested terms of reference for such committees, replacing guidance issued in 2018.
- 1.5 The position statement sets out the purpose, model, core functions and membership of the audit committee as recommended by CIPFA. It has been prepared in consultation with sector representatives and the guidance is supported by the Department for Levelling Up, Housing and Communities.
- 1.6 The guidance places greater emphasis on the independence and effectiveness of audit committees, reinforcing the position that the committee should:
 - a) be directly accountable to the Council

- b) be independent of both the executive and scrutiny functions
 - c) have rights of access to and constructive engagement with other committees/functions, for example scrutiny, corporate risk management boards and other strategic groups
 - d) have rights to request reports and seek assurances from relevant officers
 - e) be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.
- 1.7 The committee's existing terms of reference align with the core principles of the guidance but there has been significant rewording and reordering of the suggested terms of reference compared to the guidance issued in 2018.
- 1.8 In addition to the suggested terms of reference, CIPFA suggest that audit committees in local authorities should include at least two co-opted independent members (although there is no legislative direction to include any)

4. PROPOSAL

- 1.9 The proposed terms of reference (Appendix 1) are structured to match the CIPFA suggested terms. This structure is significantly different to the committee's existing terms, therefore detailed commentary is provided within the appendix.
- 1.10 **Governance:** Opening statement
The opening statement sets out the position of the committee within the governance structure of the Council and the delegations that the committee have received from Council.
- 1.11 CIPFA recommend that the committee should have no delegated powers and that the committee should operate only in an advisory capacity, although it should be noted that this recommendation covers a broad range of authorities including those with statutory arrangements for audit committees (such as Police and Crime Commissioners, fire and rescue authorities and combined authorities).
- 1.12 In that context, it is recommended that the committee continue with existing delegations from Council to approve the accounts, capital outturn, treasury management arrangements and the annual governance statement. Treasury management arrangements have specific CIPFA guidance which are set out in para 4.16 below.
- 1.13 **Statement of purpose**
The recommended wording of this paragraph condenses the previous model with the same meaning. Added to this section from the committee's existing terms is the responsibility as the designated standards body under the Localism Act 2011.

1.14 Membership

CIPFA recommend that the overall size of the committee is no more than 8 members. Additionally, it is recommended that the number of independent persons appointed to the committee is increased to two.

1.15 Although there is currently no statutory requirement for there to be any independent person on the audit committee of a London Borough, it is considered best practice and is anticipated to become a mandatory requirement for all councils as part of wider audit reform as the Auditing, Reporting and Governance Authority (ARGA) replaces the Financial Reporting Council as the industry regulator.

1.16 The committee has not had representation from an independent member for almost three years following resignation of the most recent person, postponement to recruitment during the pandemic, and recruitment difficulties following that period. Recruitment will recommence following this review of the terms of reference and membership.

1.17 The remuneration of this role is under review to better attract high calibre candidates with the requisite skills and experience and will be a matter for the committee when next considering the scheme of members' allowances.

1.18 The overall maximum size of the committee is proposed to be 6 councillors, rather than 9. Including the two independent members, this will prevent the committee from exceeding 8 members as recommended by CIPFA. In practice, the Council has traditionally appointed only 4 councillors to the committee.

1.19 Governance, risk and control

The proposed terms now reference the local code of governance, which is a best practice document that CIPFA recommends local authorities develop setting out how the Council's governance arrangements work towards meeting the seven principles of good governance (as recommended in the 2016 Governance Framework).

1.20 The Council does not currently have a local code of governance, and it is proposed that this is developed for review and adoption by the committee during the 2023/24 municipal year.

1.21 Supplementary to the CIPFA recommendations, the following issues have been incorporated from the committee's existing terms:

- a) Review and monitoring of whistleblowing arrangements
- b) Receiving reports from statutory officers or other Council bodies
- c) Monitoring the delivery and arrangements for elections and electoral registration
- d) Oversight and review of the constitution

- e) Oversight of council procedure rules and the general scheme of delegation
- 1.22 The CIPFA terms include a new paragraph relating to governance and assurance arrangements for significant partnerships or collaborations. This has been expanded to specifically reference council companies and joint ventures.
- 1.23 **Financial and governance reporting**
The content remains the same as the committee's existing terms of reference albeit with some rearrangement and rewording.
- 1.24 **Treasury management**
Treasury management sits outside of the CIPFA recommended terms of reference, although it is recognised that the committee may be the relevant body to scrutinise this activity. As such, CIPFA recommends specific lines for inclusion in the terms of reference as set out in their guidance for treasury management activity which have been incorporated.
- 1.25 Specific reference is made in this section to the role of the committee in scrutinising the treasury management strategy and policies, rather than the usual role of the committee in receiving assurance and providing advice.
- 1.26 **Arrangements for audit and assurance**
The CIPFA terms are broadly the same as the existing terms with some new paragraphs that better reflect the activity of the committee and relationship with external and internal audit.
- 1.27 Specific clauses provide for 'unfettered' access to the committee chair by the chief internal auditor and the external auditor, suggesting that this is not the case in all authorities and is a risk area for councils.
- 1.28 Likewise, an addition to the section for internal audit is consideration of the independence of the chief internal auditor; specifically in the case of their role outside of internal audit and any conflicts or pressures that might arise from those roles.
- 1.29 **Supporting corporate improvement programmes**
This section is new but captures work already undertaken by the committee.
- 1.30 Added to this section is specific reference to the consideration of complaints data. Whilst scrutiny of this information is undertaken by the budget and performance scrutiny committee, the audit and governance committee has a specific role in receiving the annual reports of the Ombudsmen and receiving assurance that identified improvements are acted upon.

1.31 **Standards**

The section on standards is taken entirely from the existing terms of reference.

1.32 CIPFA recommends that audit committees avoid having a role in standards, although that the audit committee should consider assurances on the discharge of the authority's responsibilities in relation to standards.

1.33 The current arrangement is that determination sub-committees will be drawn from the members of the audit and governance committee as required, making the hearing of standards complaints a sub-committee of audit and governance committee.

1.34 It is proposed that this continue but be kept under review should potential conflicts be identified, such as an increase in standards complaints requiring referral to the committee.

1.35 **Items that fall outside of the CIPFA recommendations**

Corporate health and safety has previously been included in the terms of reference but does not align with the assurance role of the committee.

1.36 Corporate health and safety is monitored by the Corporate Health and Safety Committee, an officer board which is accountable to the Management Board (made up of the Chief Executive and senior leadership team).

1.37 It is proposed that the matter be removed from the committee's terms of reference in line with the CIPFA model as the current governance and accountability arrangements culminating in the Chief Executive are sufficient and in line with the statutory responsibilities of the Head of Paid Service.

5. CONSULTATION

5.1 Consultation has taken place with the Governance Board, Strategic Director of Finance and the audit & Governance Committee.

IMPLICATIONS

6.1 Finance, Value for Money and Risk

6.1.1 There are no specific financial, value for money or risk implications associated with this report, which seeks to revise the existing ToR to properly reflect updated best practice in this area.

6.2 Legal

6.2.1 There are no specific implications arising from the review of the committee terms of reference.

6.3 Equalities and Diversity

6.3.1 There are no specific implications arising from the review of the committee terms of reference.

6.4 Sustainability (including climate change, health, crime and disorder)

6.4.1 There are no specific implications arising from the review of the committee terms of reference.

6.5 Council Infrastructure (e.g. human resources, accommodation or IT issues)

6.5.1 There are no specific implications arising from the review of the committee terms of reference.

BACKGROUND INFORMATION (as defined by Local Government (Access to Information) Act 1985)

No additional documentation was used to prepare this report.