

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Executive Council
Date:	29 October 2018 11 December 2018
Subject:	Audit and Governance Committee – Updated Terms of Reference
Portfolio Holder(s):	Cllr Robin Williams (Portfolio Member for Finance)
Head of Service – Joint Report:	<p>Marc Jones, Head of Function (Resources) and Section 151 Officer MarcJones@ynysmon.gov.uk</p> <p>Lynn Ball, Head of Function (Council Business) and Monitoring Officer LynnBall@ynysmon.gov.uk</p>
Report Author: Tel: E-mail:	<p>Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk</p>
Local Members:	Not applicable

A –Recommendation/s and reason/s
<p>The Executive recommends to Council that the Council approves the changes to the Council’s Constitution, being updated terms of reference for the Audit and Governance Committee as contained in the Appendix to this report.</p> <p>Reasons</p> <p>Good practice suggests that audit committees should periodically review their terms of reference for appropriateness. The Audit and Governance Committee last reviewed and approved its terms of reference in February 2015, with approval granted by the Executive in April and the County Council in May 2015.</p> <p>In May 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) fully revised and updated its guidance to take into account the legislative changes and professional developments that have affected the public sector.</p> <p>Members of the Audit and Governance Committee were keen to be part of the review of the terms of reference and attended a workshop to discuss the updated guidance on 13 June 2018.</p>

The revised guidance updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. This includes updates to regulations and statutory guidance, including the updates to the Public Sector Internal Audit Standards, and Delivering Good Governance in Local Government: Framework and associated guidance.

The audit committee role in relation to counter-fraud has also been updated to reflect the Code of Practice on Managing the Risk of Fraud and Corruption.

The guidance continues to include a strong focus on the factors that support improvement. These include the knowledge and skills that audit committee members require and a focus on where the audit committee adds value. It also provides practical support for evaluating committee effectiveness and planning improvements.

This report proposes fully revised terms of reference for approval.

B – What other options did you consider and why did you reject them and/or opt for this option?

There is an option to do nothing and leave the current terms of reference unchanged. However, it is recognised that the current terms of reference need to be updated to comply with the revised Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, to support the Committee in fulfilling its responsibilities. CIPFA's guidance represents best practice for audit committees in local authorities throughout the UK.

C – Why is this a decision for the Executive?

This is a constitutional change, which requires the Executive's view prior to the report being presented to full Council for approval.

CH – Is this decision consistent with policy approved by the full Council?

Yes

D – Is this decision within the budget approved by the Council?

Yes

DD – Who did you consult?		What did they say?
1	Chief Executive / Senior Leadership Team (SLT) (mandatory)	Approved with no further comments (28/08/18)
2	Finance / Section 151 (mandatory)	To ensure there is no delay in the process for approving the Council's financial statements, the Head of Function (Resources) / Section 151 Officer requested that the approval of the appointment of lay members remains with the Audit and Governance Committee, rather than to transfer to Full Council as advocated by the CIPFA guidelines.
3	Legal / Monitoring Officer (mandatory)	Approved, with minor observations taken account of.
4	Human Resources (HR)	Not applicable
5	Property	Not applicable
6	Information Communication Technology (ICT)	Not applicable
7	Procurement	Not applicable
8	Scrutiny	Not applicable
9	Local Members	Not applicable
10	Any external bodies / other/s	Members of the Audit and Governance Committee discussed the requirements of the revised CIPFA guidance during a workshop held in June 2018. Their observations have been included within the revised terms of reference. The Committee approved the revised Terms of Reference at its meeting on 19 September 2018.

E – Risks and any mitigation (if relevant)	
1	Economic
2	Anti-poverty
3	Crime and Disorder
4	Environmental
5	Equalities
6	Outcome Agreements
7	Other

F - Appendices:
Audit and Governance Committee – Draft Terms of Reference (September 2018)

FF - Background papers (please contact the author of the Report for any further information):

- Report to Audit and Governance Committee, Agenda Item no. 9, 19 September 2018
- Audit and Governance Committee Workshop presentation, 13 June 2018
- *Audit Committees: Practical Guidance for Local Authorities and Police*, CIPFA, 2018, available from www.cipfa.org.uk/publications
- *Position Statement: Audit Committees in Local Authorities and Police*, CIPFA, 2018, available from www.cipfa.org.uk/publications
- *Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN)*
- Internal Audit Charter (September 2017)
- Local Government (Wales) Measure 2011, in particular, Section 85
- Statutory Guidance from the Local Government (Wales) Measure 2011, Welsh Government, 2012
- Accounts and Audit Regulations (Wales) 2014
- Accounts and Audit (Wales) (Amendment) Regulations 2018
- *Statement on the Role of the Head of Internal Audit in Public Service Organisations*, CIPFA, 2010
- *Statement on the Role of the Chief Financial Officer in Local Government*, CIPFA, 2016
- Treasury Management Strategy 2018/19
- *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*, CIPFA, 2017 Edition
- *Code of Practice on Managing the Risk of Fraud and Corruption*, CIPFA, 2014
- Isle of Anglesey County Council's Constitution

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee Executive (29 October 2018) County Council (30 October 2018)
Date:	19 September 2018
Subject:	Audit and Governance Committee – Updated Terms of Reference
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: Good practice suggests that committees should periodically review their terms of reference for appropriateness. The Audit and Governance Committee last reviewed its terms of reference in February 2015, with approval granted by the Executive in April and the County Council in May 2015. In May 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) fully revised and updated its guidance to take into account the legislative changes and professional developments that have affected the public sector. This report proposes fully revised terms of reference for the Committee to consider before being submitted to the Executive and Council for approval.	

1. Introduction and Background

- 1.1. Audit committees are a key component of corporate governance and play an important role supporting local authorities. They are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.
- 1.2. To be truly effective, the chief financial officer requires an effective audit committee to provide support and challenge. In addition, an essential role for the audit committee is to oversee internal audit, helping to ensure that it is adequate and effective. Both these elements are now enshrined in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom (LGAN).
- 1.3. There have been a number of other significant developments in governance and audit practice since 2015, which have emphasised the importance of the audit committee, including the new Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016).
- 1.4. The Audit and Governance Committee's Forward Work Programme provides for the regular review of its terms of reference. The last revision acknowledged changes to the regulatory framework and guidance relating to audit committees, in particular, the

greater role for the audit committee in all aspects of assurance. This followed the Committee's recommendation to Council to change its name to 'Audit and Governance Committee' to make more transparent the enhanced role of the Committee in terms of overall governance and assurance.

- 1.5. The Committee was due to review its terms of reference in its September 2017 meeting. However, at this and subsequent meetings, the Committee approved the postponement of the review until the publication of anticipated new Chartered Institute of Public Finance and Accountancy (CIPFA) guidance.

2. Revised Guidance

- 2.1. CIPFA's guidance represents best practice for audit committees in local authorities throughout the UK. It published its new guidance in May 2018, which was circulated to members of the Committee on 25 May 2018. Members were keen to be part of the review of the terms of reference and attended a workshop to discuss the updated guidance on 13 June 2018.
- 2.2. The revised guidance updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. CIPFA has also updated the audit committee role in relation to counter-fraud to reflect the Code of Practice on Managing the Risk of Fraud and Corruption.
- 2.3. The guidance continues to include a strong focus on the factors that support improvement. These include the knowledge and skills that audit committee members require and a focus on where the audit committee adds value. It also provides practical support for evaluating committee effectiveness and planning improvements.
- 2.4. The guidance has mostly been incorporated into the terms of reference, with the exception of the requirement for full council to approve the appointment of the lay members. The Head of Function (Resources) and Section 151 Officer was concerned that a delay in the approval of the lay members would mean that the Audit and Governance Committee would also be delayed, which may cause problems in terms of approving the draft statement of accounts in accordance with deadlines. Therefore, the previous requirement for the Audit and Governance Committee members' approval remains.

3. Consultation

- 3.1. In developing the terms of reference, account has been taken of specific regulations and guidance appropriate for the Council (listed at [Appendix A](#)). Consultation has been undertaken with the Head of Function (Resources) and Section 151 Officer, the Head of Function (Council Business) and Monitoring Officer and the remainder of the Senior Leadership Team. The two lay members, Mr Dilwyn Evans and Mr Jonathan Mendoza, were also consulted. All consultees provided useful observations.

4. Recommendation

- 4.1. That the Audit and Governance Committee considers the draft terms of reference and makes any comments prior to the revised terms being recommended by the Executive on 29 October 2018 for adoption by the Council at its meeting to be held on 30 October 2018.



CYNGOR SIR
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ISLE OF ANGLESEY
COUNTY COUNCIL

Audit & Governance Committee

Draft Terms of Reference
September 2018

Statement of purpose

1. The Audit and Governance Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of the audit committee is to provide to members of full Council (*those charged with governance*) independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. It oversees internal and external audit and other regulators, helping to ensure effective assurance arrangements are in place.
3. There is clear separation between the role of the audit committee and that of scrutiny committees. The audit committee role seeks assurance that internal control systems of the council are working and risks effectively managed, rather than the actual scrutiny of activities.

Composition and arrangements

4. The Audit and Governance Committee is a non-executive body established under the requirements of the Local Government (Wales) Measure 2011 and is a fully constituted committee of the Council operating at a strategic level. The committee will conduct its business non-politically and must abide by the rules concerning political balance, in accordance with the Local Government and Housing Act 1989.
5. The committee will consist of eight elected members and two lay members. Elected members will be politically balanced and will not be members of the executive, but the Finance Portfolio Holder is required, as far as possible, to attend all meetings of the Committee. The Chair and Vice-Chair will recommend the appointment of the two lay members to the audit committee. The lay members will serve for a fixed term to coincide with the length of the Council, i.e. five years, and will serve a maximum of two terms. All members, including the lay members, are subject to the Council's Code of Conduct and will declare any interests. The lay members will have equal status to that of the elected members in terms of access to staff and information, for the purposes of the audit committee.
6. The chair of the audit committee can be a councillor or a lay member, but must not be a member of a group that forms part of the council's executive, except where all groups are represented on the executive (in which case the chair must not be a member of the executive). The committee members will decide upon

the chair and vice-chair of the committee. All committee members, including lay members, shall have a vote.

7. Any officer or member called to attend an audit committee meeting must do so. They must answer any questions asked of them except ones that they could refuse to answer if they were in court. The committee can invite other persons to attend before it, but anyone else so invited to attend is under no compulsion to do so.
8. The committee will meet at least four times a year and must meet if the full council so decides, or if at least a third of the committee's members requisition in writing to the Chair that a meeting be held. The council will publish the committee dates annually but additional meetings can be arranged at the discretion of the Chair if the required number of days' notice is provided and that the agenda is published prior to the meeting, in accordance with regulations.
9. The Head of Function (Resources) and Section 151 Officer, as the officer with responsibility for financial administration, will advise the committee. The Committee will provide effective support to the Head of Function (Resources) and Section 151 Officer, who consequently, will have direct and unfettered access to the committee.
10. The committee may commission work from the external and internal auditors and both will advise the Committee. The Committee may additionally, seek independent advice from outside the Council, within an approved budget.
11. The external and internal auditors of the Council have the right to request the chair of the committee to consider any matter that the auditors believe should be brought to the attention of the Council.
12. All new members will receive a full induction to the committee. Members will have role descriptions and will review their knowledge and skills through a self-assessment process. They will receive appropriate ongoing training in their role in accordance with an annual training programme and will receive regular briefings on new legislation, professional guidance and research.

Accountability arrangements

13. The committee will report to full council (*those charged with governance*) on an annual basis the audit committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
14. The committee will report to full council (*those charged with governance*) on an annual basis the effectiveness of the committee in meeting its purpose and its agreed terms of reference. A regular self-assessment will be used to support the

planning of the audit committee work programme and training plans and will inform the committee's annual report.

15. The committee is subject to normal arrangements of openness. Meetings will be held in public, agendas and reports are published and available for inspection. The exception to this is where 'exempt items' are being considered, which are chiefly matters which involve discussions concerning named individuals or refer to the business affairs of the Council which could prejudice the interests of the Council commercially, financially and legally.

Governance

16. The committee will review and assess the Council's corporate governance arrangements against the good governance framework¹, including the ethical framework, and will consider the local code of governance.
17. The committee will review the Annual Governance Statement (AGS) prior to full council approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
18. The committee will help the council to implement the values of ethical governance. It will promote measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community. As part of its review of governance arrangements, it will ensure there are adequate arrangements in place to enforce a strong commitment to ethical values and legal compliance at all levels.
19. The committee will review the governance and assurance arrangements available for significant partnerships or collaborations.

Treasury management

20. Full council has nominated the audit committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
21. The committee will undertake a scrutiny role in accordance with the CIPFA Treasury Management Code of Practice, prior to approval by full council. Where it is undertaking this scrutiny role, it will endeavour to develop greater awareness and understanding of treasury matters among the members.

¹ Delivering Good Governance in Local Government: Framework, CIPFA/SOLACE, 2016

22. The committee will review the treasury management policy and procedures to be satisfied that controls are satisfactory. It will receive six-monthly reports on activities, issues and trends to support the committee's understanding of treasury management activities.
23. The committee will review the treasury risk profile and processes, and will review assurances on treasury management.

Value for money

24. The committee will support the development of robust arrangements to ensure that the council makes best use of its resources and taxpayers and service users receive excellent value for money.
25. The committee will review the council's overall approach to value for money and assess whether it is in line with governance objectives and the assurances on this to underpin the Annual Governance Statement.
26. The committee will consider assurances and assessments on the effectiveness of these arrangements, in particular, the Wales Audit Office's annual improvement reports.

Assurance framework

27. The committee will consider the council's assurance framework and ensure that it adequately addresses the risks and priorities of the council. This will support the committee's approval of the internal audit risk-based plan by identifying the extent to which it will rely on internal audit for its assurance requirements.
28. The committee will ensure there is clarity of what assurance is provided, that there is a clear allocation of responsibility for providing assurance and duplication is avoided.

Risk management

29. Assurance over risk management will be a key element underpinning the Annual Governance Statement. To this end, the committee will review and assess the effective development and operation of risk management in the council. In particular, it will:
 - Oversee the authority's risk management policy and strategy, and their implementation in practice
 - Oversee the integration of risk management into the governance and decision-making processes of the organisation

- Review the arrangements to co-ordinate and lead risk management, including the process and reporting lines
- Review the risk profile, keep up to date with significant areas of strategic risks and major operational and project risks
- Review the assurance available for managing partnership risks, including the risk profile of the Council as part of the partnership
- Review the corporate risk register and seek assurance that management appropriately own and manage risks effectively
- Seek assurance that adequate risk assessments support strategies and policies and risks are actively being managed and monitored.
- Follow up and monitor risks identified by auditors and inspectors to ensure that they are integrated into the risk management process
- Support the development and embedding of good practice in the field of risk management practice.

Countering fraud and corruption

30. The committee will review the effectiveness of the council's whistleblowing arrangements, including the policy.
31. The committee will monitor the counter-fraud and corruption strategy, actions and resources, to ensure that it meets with recommended practice, governance standards and legislation.
32. The committee will review the assessment of fraud risks and potential harm to the council from fraud and corruption. It will review the fraud risk profile to understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.
33. It will oversee any major areas of fraud, identified in an annual report from the Head of Function (Resources) and Section 151 Officer, and monitor action plans to address control weaknesses.

Internal audit

34. The Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the council's internal audit arrangements.
35. The role of the audit committee in relation to internal audit will be to:
 - oversee its independence, objectivity, performance and professionalism

- support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.
36. The committee will review and approve the internal audit charter, which defines the internal audit's activity purpose, authority and responsibility.
 37. If applicable, it will review proposals and make recommendations in relation to the appointment of external providers of internal audit services.
 38. The committee will approve (but not direct) the risk-based internal audit strategy, including internal audit's resource requirements and the use of other sources of assurance. It will have a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit strategy. The committee will approve significant interim changes to the strategy.
 39. The committee will make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
 40. The committee will consider an annual report from the head of internal audit on internal audit's performance, including the performance of external providers of internal audit services.
 41. The committee will consider the head of internal audit's annual report and 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 Annual Governance Statement.
 42. The committee will consider the statement contained in the annual report of the level of conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme that support the statement – these will indicate the reliability of the conclusions of internal audit.
 43. The committee will consider updates on the work of internal audit including key findings, issues of concern, management responses and action in hand as a result of internal audit work. It will consider summaries of specific internal audit reports as requested, including the effectiveness of internal controls and will monitor the implementation of agreed actions.
 44. The committee will 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.
 45. The committee will consider reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and

Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

46. The committee will consider, approve and periodically review any safeguards put in place to limit impairments to independence and objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit.
47. The committee will contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years. It will oversee the qualifications and independence of the assessor.
48. The committee will consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit (Wales) Regulations 2014.
49. The committee will support the development of effective communication with the head of internal audit. The engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.
50. The committee will 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.

External audit

51. The committee will support the independence and objectivity of external audit through consideration of the external auditor's annual assessment of its independence.
52. The committee will consider the external auditor's annual letter and the report to '*those charged with governance*'. It will contribute to the council's response to the annual audit letter.
53. The committee will oversee external audit arrangements, comment on the scope and depth of external audit work and ensure it gives value for money. It will consider external audit reports and will monitor their recommendations.
54. The committee will advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

55. There will be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of those officers with whom the auditor must retain a working relationship.

Financial reporting

56. The committee will review and scrutinise the council's financial affairs, making reports and recommendations in relation to them.
57. The committee will review, prior to approval by full council, the authority's annual financial statements, including the explanatory foreword, key messages, trends, consistency with financial performance, suitability of and compliance with accounting policies and treatments and major judgemental areas.
58. The committee will consider the external auditor's report to 'those charged with governance' on issues arising from the audit of the accounts and whether they need to be brought to the attention of the council.

Other regulators and inspectors

59. The committee will receive and consider reports from any other regulators or inspectors, which will be a useful source of assurance. In respect of these, the authority will ensure there is no unnecessary duplication between the audit committee and any overview and scrutiny committee in considering such reports.

Appendix A – Reports, Regulations and Policies Considered

- Audit and Governance Committee Workshop presentation, 13 June 2018
- *Audit Committees: Practical Guidance for Local Authorities and Police*, CIPFA, 2018, available from www.cipfa.org.uk/publications
- *Position Statement: Audit Committees in Local Authorities and Police*, CIPFA, 2018, available from www.cipfa.org.uk/publications
- *Public Sector Internal Audit Standards (PSIAS)* and the supporting *Local Government Application Note* for the United Kingdom Public Sector Internal Audit Standards (LGAN)
- Internal Audit Charter (September 2017)
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- *Statement on the Role of the Head of Internal Audit in Public Service Organisations*, CIPFA, 2010
- *Statement on the Role of the Chief Financial Officer in Local Government*, CIPFA, 2016
- Treasury Management Strategy 2018/19
- *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*, CIPFA, 2017 Edition
- *Code of Practice on Managing the Risk of Fraud and Corruption*, CIPFA, 2014
- Isle of Anglesey County Council's Constitution