

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
HEAD OF SHARED INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	17 JANUARY 2019	5

TERMS OF REFERENCE – AUDIT AND STANDARDS COMMITTEE

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The report summarises the results of an assessment carried out to compare the Council's current arrangements with the guidance issued by CIPFA "Audit Committees - Practical Guidance for Local Authorities and Police 2018" to ensure that the Committee continues to operate in accordance with best practice.

RECOMMENDATIONS

That the Committee:

- 1. Considers and adopts the revised Terms of Reference;
- 2. Accepts the proposals in relation to developing members' skills and knowledge.

SUMMARY OF PREVIOUS DECISIONS

Not applicable

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (Value for Money)	٧
Delivering the services that customers expect of an excellent council (Clean and Green)	٧
Working with all partners (Vibrant Economy)	٧
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	٧
Promoting Fylde as a great destination to visit (A Great Place to Visit)	٧

BACKGROUND

- 1. The purpose of the Audit & Standards Committee is to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 2. CIPFA have recently issued Audit Committees Practical Guidance for Local Authorities and Police 2018 which sets out the functions, operations, roles and responsibilities of audit committees and represents best practice.

REVISED TERMS OF REFERENCE

- 3. The latest guidance incorporates a suggested terms of reference for audit committees. Internal Audit have carried out an assessment of the new requirements and although they are more detailed and prescriptive, particularly in relation to Internal Audit, it was found that the Audit and Standards Committee is already largely operating in line with the model contained within the guidance. Details of the assessment are shown at **Appendix A.**
- 4. Where any gaps have been identified, the assessment contains details any planned action to be taken to address these gaps.
- 5. Included within the current terms of reference are some specific requirements for Fylde Borough Council in relation to the regulatory framework and the arrangements of the committee and these will remain unchanged.
- 6. The suggested terms of reference has been presented to the Constitution Working Group, who had no objections to the proposals. The standards aspects of the remit of the committee will remain unchanged.

KNOWLEDGE AND SKILLS OF THE COMMITTEE

- 7. CIPFA'S guidance acknowledges that there is a range of knowledge and experience that members can bring to the Committee to enable it to perform effectively. It emphasises that there are core areas of knowledge that are beneficial for all Committee members to have.
- 8. To ensure that members of the Audit & Standards Committee are fully equipped to meet the requirements of the revised Terms of Reference, a development day has been arranged for June 2019. The training will be delivered by Diana Melville who authored the 2018 edition of the CIPFA Audit Committee guidance. Full details of the training are shown at **Appendix B.**
- 9. Also contained within the guidance, is a Knowledge and Skills framework, which allows members to carry out a self-assessment and this is shown at **Appendix C.**
- 10. It is the intention to issue this self-assessment to all members of the committee following the training. The results will be collated by Internal Audit and shared with the Chair of the Audit and Standards Committee and will be used to inform the Member Development Programme in 2019/20 and beyond.

IMPLICATIONS				
Finance	The cost of the training can be met through existing budgets and consequently there are no financial implications arising from this report.			
Legal	None arising from this report			
Community Safety	None arising from this report			
Human Rights and Equalities	None arising from this report			
Sustainability and Environmental Impact	None arising from this report			
Health & Safety and Risk Management	None arising from this report			

LEAD AUTHOR	CONTACT DETAILS	DATE
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BACKGROUND PAPERS				
Name of document	Date	Where available for inspection		
CIPFA Audit Committee –				
Practical Guidance for Local	2018	Internal Audit Office		
Authorities and Police 2018				

Attached documents

Appendix A – Terms of Reference Assessment

Appendix B – CIPFA Audit Committee Development Day programme

Appendix C – Knowledge and skills self-assessment



Aud	it and Standards Committee – Terms	of Referen	ce Assessment		Appendix A
Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Statement of Purpose	Statement of Purpose				
The function of the Audit and Standards Committee is to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of the committee in relation to audit is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it also makes an important contribution to ensuring that effective assurance arrangements are in place. The purpose of the committee in relation to standards is to promote and maintain the highest ethical standards and conduct by councillors. The committee is responsible for operating a locally based system for initial assessment of complaints that a member may have breached the Code of Conduct.	1. Our Audit & Standards Committee is a key component of Fylde 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 our Audit & Standards Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Fylde Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place				Consider amending the Statement of Purpose
Governance Risk and Control					
Overseeing the council's arrangements for corporate governance and agreeing necessary action to ensure compliance with best practice.	3. To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider local code of governance.	Compliant	Reports on the governance arrangements are considered by the Audit & Standards Committee. Probity policies presented to Committee	Sept 17 – Code of Corporate Governance Sep 17 Counter Fraud Policy Review	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Ensuring that the authority's assurance statements, in particular the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it and demonstrate how governance supports the achievements of the authority's objectives	4. To review the Annual Governance Statement prior to 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.	Compliant	Annual Governance Statement presented to committee prior to approval on an annual basis.	July 18 / Sept 17 Statement of Accounts & AGS	
Monitoring arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption	5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements	Compliant	Reports presented by External Audit provide a Value for Money opinion on an annual basis. Value for Money considered within Internal Audit reviews and reported on an exception basis.	July 18 / ISA 260 report including Value For Money opinion	
	6. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.	Compliant	Reports presented to Committee throughout the year. Reports presented to committee, including Internal Audit Annual Report, Effectiveness of Internal Audit, Corporate Risk Register Report, Annual Governance Statement report & Corporate Improvement Plan	July 18 / Jan 18 Strategic Risk Register Sept 18 / Nov 17 Corporate Governance Action Plan June 17 Internal Audit Annual Report Jan 17 Review of the effectiveness of the Audit & Standards Committee	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Considering the effectiveness of the authority's risk management arrangements and the control environment	7. To monitor the effective development and operation of risk management in the council.	Compliant	A&SC approved RM Strategy. Risk based Internal Audit Plan and reviews. Corporate risks presented to and considered by Committee.	June 17 Risk Management Strategy July 18 / Jan 18 Strategic Risk Register	
Reviewing the risk profile of the authority and assurances that action is being taken on risk-related issues, including partnerships with other organisations	8. To monitor progress in addressing risk relating issues reported to the committee	Compliant	Corporate Risk Register includes planned action to further mitigate risk. Risk based internal audit findings and implementation of agreed actions reported to committee.	July 18 / Jan 18 Strategic Risk Register June 17 Risk Action Plan updates June 17 Internal Audit Annual Report	
	9. To consider reports on the effectiveness of internal control and monitor the implementation of agreed actions.	Compliant	Internal Audit Annual Report and Progress reports include opinions of the effectiveness of internal control and the status of agreed actions	June 17 Internal Audit Annual Report Jan 18 / Nov 17 / Sept 17 Internal Audit Progress Report	
Monitoring arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption	10. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.	Compliant	Probity policies presented to Committee	Sep 17 Counter Fraud Policy Review	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Monitoring council policies on Whistleblowing and the Anti-Fraud and Corruption Policy and Strategy and the council's complaint process.	11. To monitor the counter- fraud strategy, actions and resources.	Partial compliance	Probity policies presented to Committee Summary of Special Investigations and Counter Fraud Work included within Annual Audit Report	June 17 Internal Audit Annual Report	Annual Fraud Report & Business Plan - June 19
Reviewing the risk profile of the authority and assurances that action is being taken on risk-related issues, including partnerships with other organisations	12. To review the governance and assurance arrangements for significant partnerships or collaborations.	New requirement for 2018			To be incorporated with Annual Governance Statement review
Internal Audit					
In relation to the authority's internal audit function: Overseeing its independence, objectivity, performance and professionalism Supporting the effectiveness of the internal audit process Promoting the effective use of internal audit within the assurance framework	13. To approve the Internal Audit Charter	Compliant	Internal Audit Charter approved by the Audit & Standards Committee	Sept 16 – Internal Audit Charter update	
	14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.	Not applicable	In house service delivered		
Approving (but not directing) internal audit's strategy, plan and performance	15. 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.	Compliant	Internal Audit plan presented to and approved by committee annually.	March 17 Internal Audit Plan Sept 18 – Internal Audit Plan	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
	16. To approve significant interim changes to the risk based internal audit plan and resource requirements.	Compliant	Significant changes are reported to committee.	March 18 – Internal Audit Interim Report	
	17. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.	Compliant	Internal Audit plan presented to and approved by committee annually & includes resource requirements	March 17 Internal Audit Plan	
	18. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.	Compliant	Included within Internal Audit Charter	Sept 16 – Internal Audit Charter update	
Considering reports dealing with the management and performance of internal audit	 19. To consider reports from the head of internal audit of internal audit's performance during the year, including the performance of external provider of internal audit services. These will include: a) Updates on the work of internal audit including key findings of issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) 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 nonconformance is significant enough that it must be included in the Annual Governance Statement. 	Compliant	Annual and progress reports presented to the Audit & Standards Committee The committee is advised that the Internal Audit service is compliant with the Public Sector Internal Audit Standards & Local Government Application Note.	June 17 Annual Report including QAIP update. March 18 – Internal Audit Interim Report Sept 17 Effectiveness of Internal Audit March 17 – PSIAS Peer Review report	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Considering the Chief Internal Auditor's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.	a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions. b) The opinion of 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 in Annual Governance Statement	Compliant	Annual report & opinion presented to the Audit & Standards Committee.	June 17 Annual Report including QAIP update.	
Considering summaries of specific internal audit reports as requested	21. To consider summaries of specific internal audit reports as requested.	Compliant	Interim and annual reports include the assurance ratings of reviews undertaken	June 17 Annual Report March 18 – Internal Audit Interim Report	
Considering a report from the Chief Internal Auditor on agreed recommendations not implemented within a reasonable timescale	22. 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.	Compliant	Non implementation of agreed actions included within annual and progress reports.	June 17 Annual Report March 18 – Internal Audit Interim Report Sep 17 Follow up of Internal Actions	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
	23. To 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.	Compliant	Key members of the Audit & Standards Committee participated within the external quality assessment	Mar 17 Peer Review Report	
	24. To 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 Regulations.	Compliant	Effectiveness of Internal Audit reported annually	Sept 17 Effectiveness of Internal Audit	
Receiving other reports from the Chief Internal Auditor who may report directly to the Chairman of the Committee if deemed necessary	25. To provide free and unfettered access to the Audit & Standards Committee chair for the head of internal audit including the opportunity for a private meeting with the committee.	Compliant	Arrangements incorporated within the Internal Audit Charter	Sept 16 – Internal Audit Charter update	
External Audit					
Under current legislation to appoint the council's external auditor	26. 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.	Compliant	Reports to committee on PSAA process	Jan 18 – Appointment of External Audit	
Considering the external auditor's annual letter, relevant reports and the report to those charged with governance.	27. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance	Compliant	External Audit attend and present reports to committee throughout the year.	Nov 17 Annual Audit Letter July 18 – Report to those charged with Governance ISA 260 report	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Considering specific reports as agreed with the external auditor. Receiving other reports from the external auditor who may report directly to the Chairman of the Committee if deemed necessary Meeting the external auditor and Chief Internal Auditor in private if deemed necessary	28 .To consider specific reports as agreed with the external auditor.	Compliant	Reports presented to committee.	Jan 18 – certification letter	
Commenting on the scope and depth of external audit work and ensuring it gives value for money.	29. To comment on the scope and depth of external audit work and to ensure it gives value for money.	Compliant	Reports presented to committee.	Mar 18 – External Audit Plan July 18 – Report to those charged with Governance ISA 260 report	
Commissioning work from internal and external audit	30. To commission work from internal and external audit	Compliant	As & when required.		
Supporting effective relationships between external and internal audit, inspection agencies and relevant bodies, and that the value of the audit process is actively promoted Considering the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or internal control	31. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	Compliant	Liaison meetings held with External Audit / Blackpool Council Internal Audit Service		
Financial Reporting					
Reviewing and approving the Annual Statement of Accounts. Specifically, considering 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	32. 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	Compliant	Reports presented to Committee	July 18 – Approval of the Accounts and AGS	

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Considering external auditor's opinion to those charged with governance on the financial statements and reports to members, and monitoring management action in response to issues raised by external audit	33. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	Compliant	Annual Statement of Accounts presented to committee annually.	July 18 – Approval of the Accounts and AGS	
Accountability arrangements					
	34. 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.	New requirement			To be introduced from 2019 onwards
	35. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose	New requirement			To be introduced from 2019 onwards
	36. To publish an annual report on the work of the committee	New requirement			To be introduced from 2019 onwards
Fylde Council Specific requirements					
Maintaining an overview of the council's constitution in particular the Contracts Procedure Rules, Financial Regulations and Codes of Conduct	To remain unchanged				
Advising the Council on changes to the Constitution	To remain unchanged				
Reviewing any issue referred to it by the Chief Executive or a Director, or any council body	To remain unchanged				
Considering governance, risk or control matters at the request of other committees or statutory officers	To remain unchanged				

Current Terms of Reference	Suggested Terms of Reference	Status	Details	Evidence	Further Actions
Considering the council's compliance with its own and other published standards and controls	To remain unchanged				
Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice	To remain unchanged				



APPENDIX B

CIPFA Better Governance Forum

Audit Committee Development Day

5 June 2019, Location TBC

9.30 - 10.00	Coffee and Registration
10.00 - 10.15	Introductions and workshop overview
	Diana Melville, Governance Advisor
10.10 - 10.50	The Role and Purpose of the Audit Committee
	This session will explain how the audit committee works with other parts of a local authority's governance structure, key relationships and accountability.
10.50 - 11.30	Achieving the Right Balance
	This session will focus on achieving the right focus for audit committees including: Committee membership Role of the chair Delegated decision making Maintaining a strategic focus
11.30 - 11.50	Break
11.50 - 12.40	Key Areas of Responsibility (1) A review of the governance, audit, risk and control areas that come within the terms of reference of the committee. This session will highlight the key responsibilities of the committee and reference sources. • Governance • Financial Reporting • Value for money • Partnerships and collaborative arrangements
12.40 - 13.40	Lunch

13.40 - 15.00 Key Areas of Responsibility (2)

The afternoon will continue our review of the key areas of responsibility

- Internal audit
- External audit
- Risk Management
- Counter Fraud
- Ethical governance

15.00 - 15.15 **Break**

15.15 – 16.00 Workshop Discussion –

Topic to be confirmed

We would suggest building in a discussion session at some point of the agenda, options could be:

- Reviewing examples of annual governance statements
- Discussion over knowledge and skills
- Review of a risk register

16.00 Close

The facilitator for this event will be Diana Melville, Governance Advisor

We reserve the right to alter the timing or content of sessions where circumstances require.

Audit & Standards Committee Knowledge & Skills Self-Assessment

Assessment scores:

N/A = not applicable	1 = hardly ever/ poor	2 = occasionally/ inadequate
	3 = most of the time/ satisfactory	4 = all of the time/ good

	N/A	1	2	3	4
Core Areas of Knowledge & Skills					
1. Organisational knowledge					
Members have an overview of the governance structures of the authority and decision making process.					
Members have knowledge of the organisational objectives and major functions of the authority.					
2. Governance Committee role and functions					
Members have an understanding of the committee's role and place within the governance structures. Members are familiar with the committee's terms of reference and accountability arrangements. Members have knowledge of the purpose and role of the Governance Committee.			_		
3. Governance				_	_
Members have knowledge of the six principles of the CIPFA/Solace Good Governance Framework and the requirements of the Annual Governance Statement (AGS).					
Members have knowledge of the local code of governance.					
4. Internal Audit					
Members are aware of the key principles of the Public Sector Internal Audit Standards and the Local Government Application Note. Members have knowledge of the arrangements for the delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.					
5. Financial management and accounting	_	_	_	_	_
Members have an awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. Members have an understanding of good financial management principles and knowledge of how the organisation meets the requirements of the role of the Chief Financial Officer, as required by the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.					
6. External Audit	_	_	_	_	_
Members have knowledge of the role and functions of the external auditor and who currently undertakes this role. Members have knowledge of the key reports and assurances that external audit will provide. Members know about the arrangements for the appointment of auditors and quality monitoring undertaken.					
7. Risk management					
Members have an understanding of the principles of risk management, including linkage to good governance and decision making. Members have knowledge of the risk management policy and strategy of the organisation.		П			

	N/A	1	2	3	4
Core Areas of Knowledge & Skills					
Members have an understanding of risk governance arrangements, including the role of members and the Governance Committee.					
8. Counter-fraud					
Members have an understanding of the main areas of fraud risk the organisation is exposed to. Members have knowledge of the principles of good fraud risk management practice and knowledge of the organisation's arrangements for tackling fraud.		J			_
9. Values of good governance					
Members have knowledge of the seven Principles of Public Life. Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff and knowledge of the whistleblowing arrangements in the authority.	_		_	_	
10. Treasury Management		_		_	
Members are aware of the assessment tool for reviewing the arrangements "Effective Scrutiny of Treasury Management" The key areas of knowledge are: regulatory requirements; treasury risks;		_			
the organisation's treasury management strategy; the organisation's policies and procedures in relation to treasury management.					
11. Strategic thinking & understanding of materiality					
Members are able to focus on material issues and overall position rather than being side tracked by detail.					
12. Questioning and constructive challenge					
Members are able to frame questions that draw relevant facts and					
explanations. Members are challenging performance and seeking explanations while avoiding hostility or grandstanding.					
13. Focus on improvement					
Members ensure there is a clear plan of action and allocation of responsibility.					
14. Ability to balance practicality against theory Members are able to understand the practical implications of recommendations to understand how they might work in practice.					
45. Olean Communications obills and forces on the great of the					
15. Clear Communications skills and focus on the needs of users Members support the use of plain English in communications, avoiding jargon and acronyms etc.	_	J	-	_	_
16. Objectivity					
Members evaluate information on the basis of evidence presented and avoiding bias or subjectivity					