

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	4 February 2025
<b>Title:</b>	Audit Committee Terms of Reference
<b>Report From:</b>	Assistant Director – Legal Services and Monitoring Officer

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### Purpose of this Report

1. The purpose of this report is to seek Cabinet's endorsement of the draft Audit Committee Terms of Reference for approval by the County Council. The report also seeks Cabinet's endorsement of the principle of appointing two co-opted independent members to the Audit Committee from May 2025 subject to an appropriate recruitment and selection process being undertaken by the Deputy Chief Executive and Director of Corporate Operations in consultation with the Chairman of the Audit Committee.

### Recommendation(s)

2. That Cabinet recommend the draft Audit Committee Terms of Reference set out in Annex 1 to the County Council for approval.
3. That the principle of appointing two co-opted independent members to the Audit Committee from May 2025 is supported subject to an appropriate recruitment and selection process being undertaken by the Deputy Chief Executive and Director of Corporate Operations in consultation with the Chairman of the Audit Committee.

### Executive Summary

4. At its meeting on 7 March 2024, the Audit Committee considered a report on the review of the Committee's working practices in the light of the CIPFA

Position Statement on Audit Committees (CIPFA Position Statement)<sup>1</sup> and the commitment in the County Council's Annual Governance Statement 2022-2023 to review the Audit Committee's Terms of Reference. The Committee considered the CIPFA guidance in relation to Terms of Reference for audit committees, the inclusion of co-opted independent members and the size of the committee, with the Committee's comments informing the approach to a review of the Committee's Terms of Reference. The Committee agreed that an Annual Report from the Audit Committee should be presented to the County Council, that a new approach to training and development of Committee Members be adopted and that arrangements be made for the Chairman and Vice Chairman to meet in private with the Chief Internal Auditor and the external auditor.

5. Subsequently, at its meeting on 24 May 2024, the Audit Committee agreed proposed amendments to its Terms of Reference for recommendation to Cabinet for consideration and recommendation to the County Council for approval. In addition, with a small amendment made regarding consultation, the Committee voted to support the principle of appointing two co-opted independent members to the Audit Committee from May 2025 subject to an appropriate recruitment and selection process being undertaken by the Deputy Chief Executive and Director of Corporate Operations in consultation with the Chairman of the Audit Committee.
6. In addition to those changes recommended by the Audit Committee, it is proposed to make some small amendments to the Audit Committee Terms of Reference as a consequence of some anticipatory changes in respect of the Internal Audit function and these are detailed below.

### **Contextual information**

7. The Monitoring Officer, the Head of Finance, the Chief Internal Auditor and the Deputy Director of People and Organisation conducted a review of the Audit Committee's Terms of Reference based on the principles set out in the CIPFA Position Statement.
8. The CIPFA Position Statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives. CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police 2022

responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

9. That review highlighted areas where CIPFA guidance indicates that the Audit Committee's Terms of Reference can be improved, to ensure that they align with the areas recommended by CIPFA including the recruitment of two co-opted independent members to sit on the Audit Committee to add external perspective and expertise to the work of the Committee.

## **Terms of Reference**

10. The proposed revised Terms of Reference are set out in Annex 1.
11. The revised Terms of Reference provide more detail on the role of the Audit Committee, while retaining the roles of the Audit Committee that are established at the County Council. While the CIPFA guidance suggests that the Audit Committee should be an advisory committee it is not proposed to adopt this suggestion. The Audit Committee provides a key role in approving the County Council's Statement of Accounts and Annual Governance Statement and it would not be able to do this if constituted as an advisory committee. Most Council audit committees are decision making committees for this reason.
12. The current Terms of Reference provide that the Chairman of the Committee should not be a Member of the Executive. The revised Terms of Reference seek to strengthen the independence of the Committee by providing that no Member of the Executive may be a Member of the Committee.
13. In sectors outside local government, it is typical for audit committees to have fewer than six members. Among local authorities, there is a range of practice, including some committees that exceed ten members. In the sector, CIPFA note that it can be harder to achieve the depth of knowledge and experience that is desirable with a small number, but equally it can be difficult to provide training and development for a large group.
14. CIPFA's recommendation is that a committee size of no more than eight members should be established. In their view this allows sufficient breadth of experience, independence and accountability but is small enough to allow the training and development of a dedicated group. Notwithstanding CIPFA's view, the current political composition of the Audit Committee works well and it is suggested that the advantages of a wider breadth of experience outweighs the advantages of training a smaller group. Other than the addition of the two independent Co-opted Members it is not therefore proposed to change the size of the Committee.

15. In addition to those changes recommended by the Audit Committee, it is proposed to make some small amendments to the Audit Committee Terms of Reference as a consequence of some anticipatory changes in respect of the Internal Audit function.
16. Currently, the Council's Internal Audit function is required to comply with the Public Sector Internal Audit Standards which were based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practice Framework (IPPF). In January 2024 the IIA published a significant revision of their IPPF in the form of the Global Internal Audit Standards which provide a single source to guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function.
17. From 1 April 2025, the 'standards or guidance' in relation to internal audit are those laid down in the Global Internal Audit Standards, Application Note: Global Internal Audit Standards in the UK Public Sector and the Code of Practice for the Governance of Internal Audit in UK Local Government. The collective requirements are referred to as the Global Internal Audit Standards in the UK Public Sector. Amongst other changes, an 'internal audit mandate' will need to be produced, setting out the statutory and wider basis of Internal Audit's authority.
18. Therefore, in anticipation of the implementation of the Global Internal Audit Standards in the UK Public Sector in April 2025, in addition to those changes recommended by the Audit Committee, the following amendments to paragraph 6.2 of the Audit Committee Terms of Reference set out in Annex 1 are recommended:
  - Paragraph 6.2.1: a reference to the Internal Audit Mandate to be included;
  - Paragraph 6.2.6.3: "Global Internal Audit Standards in the UK Public Sector" to be substituted for "Public Sector Internal Audit Standards ('PSIAS') and Local Government Application Note ('LGAN')";
  - Paragraph 6.2.7.1: "Global Internal Audit Standards in the UK Public Sector" to be substituted for "PSIAS and LGAN"; and
  - Paragraph 6.2.7.2: "conclusion" to be substituted for "opinion".

### **Independent Members**

19. Following the CIPFA guidance it is proposed that the County Council appoints two non-voting co-opted independent members to the Audit Committee.
20. A co-opted independent member is a committee member who is not an elected representative but recruited to join a committee. The objective of including such members is to increase the knowledge and experience base of a committee, reinforcing its independence. Inclusion of independent members

is a legislative requirement for authorities in Wales and for combined authorities in England.

21. While it is not a legislative requirement for the County Council to have independent members on its Audit Committee CIPFA recommends the committee includes two co-opted independent members. The CIPFA guidance follows the Government's response (in December 2020) to the Redmond Review into the oversight of local audit and the transparency of local authority financial reporting. The Government confirmed its support for the appointment of at least one independent member to audit committees.
22. The reasons for CIPFA's recommendation are as follows:
  - To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
  - To provide continuity outside the political cycle.
  - To help achieve a non-political focus on governance, risk and control matters.
  - Having two co-opted independent members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the Committee.
  - Having two co-opted independent members shows a commitment to supporting and investing in the Committee.
23. The role description for a co-opted member of the committee will be the same as for an elected representative who is a committee member. The only substantial difference will be that an independent member cannot vote although they can, of course, contribute to the discussions prior to the formal decision.
24. As the appointment of co-opted independent members will require a change to the Audit Committee's Terms of Reference and consequently a change to the Constitution a further report will be required to the County Council to implement this change.
25. In addition, the co-opted independent members will have to be recruited and consequential changes will have to be made to the Member's Allowance Scheme.

## **Finance**

26. If approved the proposal to appoint two co-opted independent members will generate additional costs to the County Council of £1,626 as each of the Co-opted Members would (under the current Members' Allowance Scheme) receive an allowance of £813. The views of the Independent Remuneration Panel are being sought on an increased allowance to reflect the requirement of the role.

## **Consultation and Equalities**

27. There are no equality impacts deriving from the Recommendations set out in this Report.

## **Climate Change Impact Assessment**

28. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
29. The carbon mitigation tool and/or climate change adaptation tool were not applicable because the decision is administrative in nature.

## **Conclusion**

30. It is recommended that Cabinet recommend the draft Audit Committee Terms of Reference set out in Annex 1 to the County Council for approval. It is also recommended that the principle of appointing two co-opted independent members to the Audit Committee from May 2025 be supported subject to an appropriate recruitment and selection process being undertaken by the Deputy Chief Executive and Director of Corporate Operations in consultation with the Chairman of the Audit Committee.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:**

**It relates to the good governance of the County Council**

**Other Significant Links**

**Links to previous Member decisions:**

<u>Title</u>	<u>Date</u>
Audit Committee Review <a href="#">Corporate report template</a>	7 March 2024
Audit Committee Terms of Reference Report <a href="#">Corporate report template</a>	24 May 2024

**Direct links to specific legislation or Government Directives**

<u>Title</u>	<u>Date</u>
CIPFA Audit Committees-Practical Guidance for local authorities and police <a href="#">Support for audit committees</a>	2022

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **Equalities Impact Assessment:**

No equality impacts have been identified in relation to the Recommendations in this Report.



# Part 1: Chapter 7

## The Audit Committee

### 1. The Audit Committee

The County Council has set up an Audit Committee to monitor, review and report on the governance arrangements of the County Council.

### 2. Composition

The Audit Committee is composed of eleven members, 9 County Councillors and two non-voting co-opted independent Members. No Member of the Committee may be a member of the Executive.

### 3. Role and function

The Audit Committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to the County Council 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 there are adequate arrangements in place for both internal challenge and public accountability.

The Audit Committee will monitor, review and report on the way in which governance is exercised within the County Council with regard to:

### 4. Governance Risk and Control

4.1 To review the County Council's corporate governance arrangements against the good governance framework<sup>2</sup>, including the ethical framework, and approve the local code of governance.

4.2 To monitor the effective development and operation of risk management in the County Council.

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<sup>2</sup> Delivering Good Governance in Local Government: Framework (2016 Edition)

- 4.3 To monitor progress in addressing risk-related issues reported to the Audit Committee.
- 4.4 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 4.5 To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code.
- 4.6 To consider the County Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 4.7 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 4.8 To monitor the counter fraud strategy, actions and resources.
- 4.9 To review the governance and assurance arrangements for significant partnerships or collaborations.
- 4.10 To make recommendations to the County Council for the making or amending of Financial Regulations, Contract Standing Orders or regulations related to the conduct of the County Council's business.

## **5. Financial and Governance Reporting**

### **Governance Reporting**

- 5.1 To approve the Annual Governance Statement ('AGS') if satisfied that it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
- 5.2 To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the County Council's objectives.

### **Financial Reporting**

- 5.3 To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- 5.4 To approve the Annual Statement of Accounts of Hampshire County Council and the Hampshire Pension Fund". 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 County Council
- 5.5 To consider the external auditor's report on issues arising from the audit of the accounts
- 5.6 To review and consider the reports from the Chief Financial Officer on the treasury management function, including the Treasury Management Strategy, Half Yearly Report and Annual Report.

## **6. Arrangements for Audit and Assurance**

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

### **6.1 External Audit**

- 6.1.1 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 Public Sector Audit Appointment or the County Council's auditor panel as appropriate.
- 6.1.2 To consider the external auditor's annual letter and any other relevant reports.
- 6.1.3 To receive and consider audit reports relating to the Pension Fund Panel and Board.
- 6.1.4 To consider specific reports as agreed with the external auditor.
- 6.1.5 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 6.1.6 To consider additional commissions of work from external audit.
- 6.1.7 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
- 6.1.8 To provide free and unfettered access to the Chairman of the Audit Committee for the auditors, including the opportunity for a private meeting with the Chairman of the committee.
- 6.1.9 To make recommendations to the County Council on the appointment of the County Council's External Auditor in accordance with the Local Audit and Accountability Act 2014 and regulations made thereunder.

### **6.2 Internal Audit**

- 6.2.1 To approve the Internal Audit Mandate and Charter.
- 6.2.2 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.
- 6.2.3 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 6.2.4 To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- 6.2.5 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.

- 6.2.6 To consider reports from the Head of Internal Audit on Internal Audit's performance during the year. These will include:
  - 6.2.6.1 updates on the work of Internal Audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - 6.2.6.2 regular reports on the results of the Quality Assurance and Improvement Program ('QAIP')
  - 6.2.6.3 reports on instances where the internal audit function does not conform to the Global Internal Audit Standards in the UK Public Sector, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 6.2.7 To consider the Head of Internal Audit's annual conclusion report, including:
  - 6.2.7.1 the statement of the level of conformance with the Global Internal Audit Standards in the UK Public Sector and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of Internal Audit)
  - 6.2.7.2 the conclusion on the overall adequacy and effectiveness of the County Council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the Audit Committee in reviewing the AGS).
- 6.2.8 To consider summaries of specific internal audit reports as requested.
- 6.2.9 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 County Council or there are concerns about progress with the implementation of agreed actions.
- 6.2.10 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.
- 6.2.11 To provide free and unfettered access to the Chairman of the Audit Committee for the Head of Internal Audit, including the opportunity for a private meeting with the Chairman.

## **7. Accountability Arrangements**

- 7.1 To present to the County Council an annual report on the work of the Audit Committee, including a conclusion on the compliance with the CIPFA Position Statement.
- 7.2 To report to the County Council any issue that it believes necessitates consideration by the County Council.

## **8. Elections**

8.1 Functions relating to elections as specified in Schedule 1 Paragraph D of the Functions Regulations.