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<b>TO:</b>	Council
<b>DATE:</b>	Thursday 30 March 2023
<b>EXECUTIVE MEMBER:</b>	Deputy Leader and Portfolio Holder for Finance and Governance

<b>KEY DECISION REQUIRED:</b>	NO
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<b>SUBJECT:</b>	<b>Constitution Review: Audit Committee and Overview &amp; Scrutiny Committee – Revised Terms of Reference</b>
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**RECOMMENDATIONS:**

**That the amendments set out in this report be adopted and incorporated into the Council’s Constitution (Part 3a, Responsibility for Functions) with regard to the Audit Committee and Overview & Scrutiny Committee:**

- (i) To amend the Audit Committee’s Membership to five elected Members plus one Independent Member; and**
- (ii) To amend the Audit Committee’s Terms of Reference to remove responsibility for scrutiny of the Treasury Management Strategy and associated reports, and consequentially amend the Overview and Scrutiny Committee’s Terms of Reference to add responsibility for Treasury Management scrutiny.**

**REASONS FOR RECOMMENDATIONS:**

The purpose of the recommendations is to ensure that:

- a) The Audit Committee continues to provide effective and independent assurance to the Council on the adequacy of the risk management framework and the internal control environment, as detailed under paragraphs 2 to 6; and
- b) The Council continues to comply with relevant guidance and Codes of Practice, as detailed under paragraphs 7 to 9.

**EXECUTIVE SUMMARY:**

This report recommends that the Council adopts amendments to the membership and terms of reference of the Audit Committee and the terms of reference of the Overview and Scrutiny Committee as demonstrated under Annex 1, which sets out the amendments to be made to Part 3a of the Constitution, to offer assurance that the Overview & Scrutiny Committees remains compliant with the CIPFA Codes of Practice with regard to treasury management.

<b>Council has authority to approve the above recommendation.</b>
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## **STATUTORY POWERS**

1. The functions of the Audit Committee are set out in Part 3a of the Council's Constitution, in line with the Local Government Act 2000 as amended by the Localism Act 2011 and the Local Audit and Accountability Act 2014 and the Local Audit and Accounts Regulation 2015

## **BACKGROUND**

### Audit Committee Membership, Training & Support

2. The Audit Committee was established in 2020/21 and has responsibility for oversight of the Council's corporate governance arrangements.
3. The technical nature of the Committee's responsibilities and the associated expectation that Committee Members acquire sufficient knowledge to fulfil their responsibilities places significant demands on those Members. To date the majority of training for Audit Committee Members has been delivered through generic webinars organised by third parties such as CIPFA. In response to feedback, going forward the intention is to move to more in-person briefings that are tailored to RBBC's specific circumstances. These will include training for Committee Members on:
  - (i) The role and responsibilities of the Audit Committee;
  - (ii) Governance, including the Council's Code of Corporate Governance and Annual Governance Statement;
  - (iii) The Council's Risk Management Strategy and Strategic Risk Register;
  - (iv) The role of Internal Audit; and
  - (v) The Council's Statement of Accounts and the External Auditor's Annual Report.
4. This change of emphasis is designed to support Committee Members in carrying out their responsibilities, but success will depend on Members being available to participate in the training provided.
5. It is therefore also recommended that the number of Members on the Committee be revised to five (previously nine), plus an Independent Member, so that more in-depth briefings with officers and external advisors can be organised. Members will be nominated to the Committee at Annual Council in May each year, in accordance with the prevailing political balance.
6. The proposed approach to Member training is consistent with that adopted for other Council committees where specialist knowledge is considered to be important in order that the Committee operates effectively. It is also consistent with the latest CIPFA and Government guidance on the importance of raising the skills and knowledge of Audit Committees in local government. Group Leaders will be asked to ensure that nominees are made aware of the requirement to participate in training when Committee Members are confirmed each year.

### Treasury Management Strategy and Reporting Scrutiny

7. The Chartered Institute of Public Finance & Accountancy (CIPFA) publishes the Code of Practice for Treasury Management and the Prudential Code for Capital Finance that set the framework for treasury management and borrowing activity in local government. The Codes were revised in 2021 and, with effect from April 2023, there is a new requirement for treasury management performance to be included in the quarterly performance and budget monitoring reports that are presented to Overview & Scrutiny Committee and Executive.
8. Over the past two years responsibility for scrutiny of the Council's treasury management strategy and associated performance reporting has been delegated to the Audit Committee. These latest changes to the CIPFA Codes mean that it will be necessary to transfer these responsibilities back to Overview & Scrutiny for 2023/24 onwards.
9. In line with previous practice, the expectation is that the Overview & Scrutiny Committee will establish a cross-party Panel of Members that will receive training and briefings from the Council's Finance team and its treasury management advisors to support the Committee in carrying out its additional responsibilities in this area. This Panel is anticipated to include Members from both the Overview & Scrutiny and the Audit Committee.
10. 2023/24 is anticipated to be a busy year for Audit Committee as the external auditor's reports on the statement of accounts for 2020/21 and for 2021/22 are scheduled for completion. This will require the scheduling of additional Audit Committee training and briefings during the year. Moving responsibility for treasury management back to Overview & Scrutiny has the additional benefit of freeing up Audit Committee time to help accommodate this additional activity.
11. Annex 1 sets out the amendments to be made to the Constitution to effect the changes recommended in this report

### **OPTIONS**

12. Council has two options:

**OPTION 1:** Adopt the recommendations set out in this report – this would offer assurance that the Overview & Scrutiny Committees remains compliant with the CIPFA Codes of Practice with regard to treasury management. Also that Audit Committee Members have more access to focussed training and support to help them fulfil their responsibilities.

**OPTION 2:** Take no action – this would prevent compliance with the revised CIPFA Codes on treasury management and the Audit Committee is less likely to develop the required in-depth knowledge to carry out its responsibilities.

### **LEGAL IMPLICATIONS**

13. The Council's Audit Committee is defined by the Local Government Act 2000 and its purpose is to give assurance to elected members and the public about the governance, financial reporting and performance of the Council.

### **FINANCIAL IMPLICATIONS**

14. There are no specific financial implications arising from the recommendations in this report.

### **COMMUNICATIONS IMPLICATIONS**

15. There are no specific communication implications arising from the recommendations in this report

### **EQUALITIES IMPLICATIONS**

16. There are no specific equalities implications arising from the recommendations in this report

### **RISK MANAGEMENT CONSIDERATIONS**

17. There are no additional risk management implications. The proposal in this report support the Audit Committee in carrying out its responsibilities for oversight of governance and risk arrangements.

### **CONSULTATION**

18. The Monitoring Officer, the Chief Finance Officer, the Leader of the Council, Portfolioholder for Finance & Deputy Leader, Group Leaders, Chair of the Audit Committee and Chair of the Overview and Scrutiny Committee have been consulted on the proposals in this report.

### **POLICY FRAMEWORK**

19. The proposals in this report are compliant with the Council's Policy framework and Constitution.

### **Background papers:**

*CIPFA Treasury Management in the Public Services: Code of Practice 2021*

*CIPFA, Prudential Code for Capital Finance in Local Authorities 2021*

*CIPFA, Audit committees: [cipfa.org/](http://cipfa.org/) 2022 edition practical guidance for local authorities and police, 2022*

*DLUHC, Report of Sir Tony Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, 2020*

### **Annexes**

- 1 Constitution Extract: Part 3b Responsibility for Functions – Recommended Amendments

**Constitution Extract: Part 3b Responsibility for Functions**  
**Recommended Amendments**

Committee	Membership	Function	Delegation of Functions
Audit	5 Members of the Authority plus one Independent Member	<p>Our Audit Committee is a key component of Reigate and Banstead Borough Council's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the audit committee is to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. It provides independent review of Reigate and Banstead Borough 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 independent assurance arrangements are in place.</p> <p><u>Internal Audit and Governance Responsibilities</u></p> <ol style="list-style-type: none"> <li>1. Approve the Council's internal audit charter</li> <li>2. Approve (but not direct) the Council's annual internal audit plan.</li> <li>3. Receive quarterly reports to review progress in relation to the delivery of the risk-based audit plan. Seek assurance that appropriate action has been taken where necessary and give consideration to agreed management actions that have not been implemented within a reasonable timescale</li> <li>4. To approve significant interim changes to the risk-based internal audit plan.</li> <li>5. To consider the annual report and opinion of the Chief Internal Auditor</li> <li>6. Consider the Council's corporate systems and controls, compliance with legislation and control procedures</li> <li>7. To be satisfied that the authority's assurance statement, including the annual governance statement, properly reflects the risk environment and any actions required to improve it.</li> </ol>	No change

Committee	Membership	Function	Delegation of Functions
		<p>8. To confirm, as necessary, and monitor (contd.) compliance with the Code of Corporate Governance at least annually and advise the Council or the Leader/Executive, as appropriate, on any matters it wishes to draw to their attention.</p> <p>9. To receive any reports received by the internal audit service provider of an external assessment as a provider that is required under the Public Sector Internal Audit Standards (PSIAS).</p> <p>10. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.</p> <p><u>Statement of Accounts and External Audit Responsibilities</u></p> <p>11. To approve appointment of the Council's external auditor, as recommended by Public Sector Audit Appointments.</p> <p>12. To approve the annual audit plan from the external auditor.</p> <p>13. To review and approve the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.</p> <p><b>DELETE:</b> <u>Treasury Management Responsibilities</u> Ensure effective scrutiny of the treasury management strategy and procedures</p> <p><u>Risk Management Responsibilities</u></p> <p>15. To oversee and review any issue referred to it by the Chief Executive or a Director, or any Council body against the Council's strategy towards Risk Management, Anti-Fraud and Whistleblowing Strategies, Health and Safety policies and practices and all other published standards and controls.</p> <p>16. Consider the effectiveness of the authority's risk management arrangements, the control framework and seek assurance that action is being taken to mitigate those risks identified.</p> <p>17. Monitor the effective development and operation of risk management in the council Reporting.</p> <p>18. To submit an annual report on Audit Committee activities to the Council</p>	
Overview & Scrutiny	No Change	<b>ADD:</b> <u>Treasury Management Responsibilities</u>	No Change

Committee	Membership	Function	Delegation of Functions
		Ensure effective scrutiny of the treasury management strategy and procedures	