

SUBJECT:	AUDIT COMMITTEE TERMS OF REFERENCE
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
REPORT AUTHOR:	JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

- 1.1 To obtain comments on an update to the Audit Committee Terms of Reference, following which the updated terms of reference will be presented to Executive and Full Council for approval.

2. Executive Summary

- 2.1 The Audit Committee terms of reference are based on best practice issued by CIPFA, (Chartered Institute of Public Finance and Accountancy) and the Audit Committee is also referenced within the Public Sector Internal Audit standards.
- 2.2 CIPFA have recently updated their guidance on Audit Committees including standard terms of reference.
- 2.3 In order to ensure compliance with agreed standards, this Committee's terms of reference should be amended to reflect this guidance.

3. Background

- 3.1 CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales. This replaces the previous 2013 Position Statement.
- 3.2 Guidance recognises that audit committees are a key component of governance. The purpose of an audit committee 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. Audit committees 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. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation.
- 3.3 Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the Accounts and Audit (England) Regulations 2015 state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims

and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs"

4. Changes to Terms of Reference

4.1 The suggested revised terms of reference are attached at Appendix A

4.2 Appendix B, lists all the changes that have been made. This could be a new function, change to an existing function, or maintenance of existing functions where there is no equivalent in the new guidance.

4.3 The key new responsibilities are as follows:

- a) Audit Committee Chair to approve significant interim changes to the risk-based internal audit plan and resource requirements followed by report to Audit Committee.
- b) To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- c) 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
- d) To consider specific reports as agreed with the External Auditor.
- e) 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.
- f) To monitor progress in addressing risk-related issues reported to the committee.
- g) To review the governance and assurance arrangements for significant partnerships or collaborations

4.4 It is not anticipated that these changes will significantly add to the work programme of responsibilities of the Committee. Suggestions as to how these can operate in practice are as follows:

- a) Where there is an urgent need to make significant changes, the Chair will be consulted. In other cases a report to Committee will be presented.
- b) This can be covered in a statement within each internal audit progress report.

- c) This can be considered as part of planning; currently there are no responsibilities outside of internal audit and counter fraud.
- d) Where there needs to be a report which sits outside the agreed planned reports.
- e) To receive a report on such matters.
- f) To consider reports covering any specific risk-related issues outside the standard reporting arrangements.
- g) Audit Committee members to consider a separate (future) report on partnership and collaboration assurance.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There are no direct financial implications.

5.2 Legal Implications including Procurement Rules

These changes in Terms of Reference are in a change in the Council's constitution.

6 Recommendation

6.1 That the Audit Committee comment on the suggested changes and recommend to Executive and Full Council for approval

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? Two

List of Background Papers: None

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