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| <b>SUBJECT:</b>       | <b>AUDIT COMMITTEE TERMS OF REFERENCE</b> |
| <b>DIRECTORATE:</b>   | <b>CHIEF EXECUTIVE AND TOWN CLERK</b>     |
| <b>REPORT AUTHOR:</b> | <b>AMANDA STANISLAWSKI, AUDIT MANAGER</b> |

## **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 also the Audit Committee requirements referenced within the Public Sector Internal Audit standards.
- 2.2 CIPFA updated their guidance on Audit Committees including standard terms of reference in 2022 including a model standard terms of reference.
- 2.3 This report sets out the revisions to the Terms of Reference 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. The revised guidance was issued in October 2022 replacing the previous guidance issued in 2018.
- 3.2 The 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 the Terms of Reference**

- 4.1 The suggested revised Terms of Reference are attached at Appendix A. The model provided by CIPFA has been used as the framework for the revised Terms of Reference merged with the aspects specific to the City Council.
- 4.2 Appendix B, shows the changes that have been made. Changes in responsibilities or wording are shown in red and responsibilities which are not required by the guidance but were in the previous version are shown in blue. The layout has also been changed to include numbering, different headings and some responsibilities have been moved under a different section.
- 4.3 The revised Terms of Reference do not contain any changes which will have a significant impact on the work undertaken by the Audit Committee. A summary of the main changes is provided as follows:-

##### Audit Committee

Minor changes have been made concerning rights of access, substitute members and number of meetings to clarify what was in the previous version.

CIPFA recommends that the Audit Committee membership includes two independent members and as a minimum there should be one. The Terms of Reference have not been revised to include two independent members but a recommendation has been made that the Committee consider this.

##### Statement of Purpose

No changes have been proposed for this section.

##### Governance, Risk and Control

A number of additional responsibilities have been added including:-

- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code.
- To consider reports on customer complaints against service provision and monitor the effectiveness of the arrangements for managing these complaints.

Whilst these have been added to the Terms of Reference, these were already being undertaken by the Committee so there are no physical changes to be implemented.

## Financial Reporting

Two additional responsibilities have been added:-

- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.
- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.

These are also already being undertaken so no physical changes are required.

## Arrangements for audit and assurance

A number of minor changes have been made to the wording to expand abbreviations, improve consistency and ensure accuracy. There was one additional responsibility added for External Audit:-

- To provide free and unfettered access to the Audit Committee Chair for the auditors, including the opportunity for a private meeting with the Committee.

This documents the practice already in place making it more visible.

## Accountability Arrangements

The responsibilities have been expanded to include further detail of the contents of the annual report to Full Council and publication requirements:-

- To report to Full Council on an annual basis the Committee's performance in relation to meeting their Terms of reference and the effectiveness of meeting their purpose. The report to include 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.
- To publish an annual report on the work of the Committee, including a conclusion on the compliance with the CIPFA position Statement.

## **5. Strategic Priorities**

Ensuring that the Council has effective arrangements in place for its Audit Committee is a key part of the Council's overall governance framework.

## **6. Organisational Impacts**

### **6.1 Finance**

There are no direct financial implications arising as a result of this report. If a further independent member is recruited to the Committee this will result in an allowance being payable to them.

### **6.2 Legal Implications including Procurement Rules**

The changes to the Terms of Reference are a change to the Council's constitution.

## **8. Recommendations**

- 8.1 That the Audit Committee comment on the suggested changes and recommend to Executive and Full Council for approval.
- 8.2 The Audit Committee consider whether to appoint an additional independent member.

**Is this a key decision?** ~~Yes~~/No

**Do the exempt information categories apply?** ~~Yes~~/No

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

**How many appendices does the report contain?** 2

**List of Background Papers:** None

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