

AUDIT COMMITTEE

24 JUNE 2021

AUDIT COMMITTEE – REVIEW OF TERMS OF REFERENCE

Report from: James Larkin, Head of Audit & Counter Fraud Shared Service
(Chief Audit Executive)

Summary

To review the Terms of Reference of the Audit Committee and to agree any changes Members consider necessary.

1. Budget and policy framework

- 1.1. The establishment and terms of reference of council committees are outside the council's policy and budget framework; any revisions to the terms of reference must be approved by Council.

2. Background

- 2.1. The Audit Committee was established and its Terms of Reference were agreed by Council in 2006, following the publication of guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA). The Terms of Reference should be reviewed by the committee on a regular basis, to ensure that they remain relevant and reflect best practice.
- 2.2. The current Audit Committee Terms of Reference were last reviewed in July 2020 and are documented in the Constitution of the council.

3. Review of the Audit Committee Terms of Reference 2021

- 3.1. The Terms of Reference are based on the revised Position Statement on Local Government Audit Committees issued by CIPFA in 2018; although the Position Statement and associated guidance are not statutory.
- 3.2. The guidance states that audit committees are a key component of an authority's governance framework" and that their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 3.3. The core functions of the Audit Committee are to;

- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
- in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
- consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations,
- monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption,
- consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control,
- support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process, and
- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit

3.4. A desktop review of the Terms of Reference for the Audit Committee has identified that the functions are considered to be in line with those set out in the Position Statement.

3.5. Council decided in April 2020, following a recommendation from this Committee, to give the Audit Committee responsibility for reviewing financial information relating to the limited companies and joint ventures set up by the Council. This additional responsibility is set out in the last bullet point of the Terms of Reference at Appendix 1.

3.6. Elsewhere on this Agenda is a report considering a proposal for the inclusion of an Independent Member on the Audit Committee. Should the Committee decide to take this matter forward, then the Committee's terms of reference will need to be updated.

4. Risk management

- 4.1. There are no significant risks arising from this report; regular review of the Terms of Reference of the Audit Committee will ensure they remain relevant and reflect best practice.

5. Climate change implications

- 5.1. There are no climate change implications in this report.

6. Financial implications

- 6.1. An adequate and effective Audit and Counter Fraud function provides the Council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the Council.

7. Legal implications

- 7.1. There are no legal implications arising from this report.

8. Recommendations

- 8.1. Following a review of the Terms of Reference, no amendments are proposed as they remain relevant and reflect best practice and the Audit Committee is recommended to continue to operate under the existing Terms of Reference subject to any decision to add an Independent Member to the Committee's membership.

Lead officer contact

James Larkin, Head of Audit and Counter Fraud Shared Service
james.larkin@medway.gov.uk

Appendices

Appendix 1 - Audit Committee Terms of Reference

Background papers

None