

## **AUDIT COMMITTEE**

**29 JUNE 2023**

### **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 June 2021 and are documented in the Constitution of the council. A copy can be found at Appendix 1.
3. Review of the Audit Committee Terms of Reference 2023
  - 3.1. The Terms of Reference (TOR) are based on the Position Statement on Local Government Audit Committees issued by CIPFA. Although the Position Statement and associated guidance are not statutory, this review has been structured around the latest version of the Position Statement, which was published in 2022 (Appendix 2), where it is noted that there is an expectation that *'all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements'*.
  - 3.2. While there are no fundamental changes to the Position Statement published in 2018, the revised 2022 Statement does make its position clearer in relation

to a number of aspects, such as membership of the committee and its outputs.

3.3. The Position Statement is broken down into key areas:

- The purpose of the Audit Committee:
- Independent and Effective Model.
- Core Functions
  - Maintenance of governance, risk, and control arrangements
  - Financial and governance reporting
  - Establishing appropriate and effective arrangements for audit and assurance
- Audit committee membership
- Engagement and outputs
- Impact

and the changes to the TOR proposed following the desk top review, which are all aimed at better demonstrating adoption of the CIPFA principles, are summarised below.

- 3.4. The Membership details in the TOR previously stated that the Chair of the Committee should be free from Executive or Scrutiny responsibilities. However, it is felt that based on the Position Statement, all Members should be free of Executive responsibilities. Membership of Scrutiny Committees is not felt to represent any conflict.
- 3.5. The functions section of the TOR has been restructured to better align with the 'Core Functions' outlined in the Position Statement, although the titles have not been adopted. These changes group the functions of the Committee into the key areas of responsibility.
- 3.6. An 'Engagements and Outputs' section has been introduced to make the expectations and rights of the Committee clear. The majority of the actions for the Committee that are listed in this section, with the exception of an annual report, have always been in place but have not been explicitly expressed in the TOR.
- 3.7. While previous statements have made reference to an annual report from the Chair of the Committee, the latest update is much clearer on the expectation. The report is expected to outline '*how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance*'.
- 3.8. Previous statements have also made reference to Co-opted members being part of the Committee. The inclusion of an independent member was considered by the Committee in 2021 but not taken forward at the time following a vote.
- 3.9. The Independent and Effective Model section of the Statement now states that '*Where there is no legislative direction to include co-opted independent*

*members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise'. This is now more explicitly clear that in previous statements and it is advised that the Committee give the matter further consideration.*

3.10. Should the Committee decide to take this matter forward, then the Membership section of the draft updated TOR, which can be found at Appendix 3, will need to be updated to reflect any subsequent changes.

#### 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. The Audit Committee has oversight of the council's governance and internal control arrangements, as well as the arrangements for financial reporting and statutory statement of accounts.

#### 7. Legal implications

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

#### 8. Recommendations

8.1. The Committee is recommended to review the revised Terms of Reference, as set out in Appendix 3 to the report and recommend adoption by Full Council, subject to any decision to add independent members to the Committee's membership.

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#### Appendices

Appendix 1 – Current Audit Committee Terms of Reference  
Appendix 2 – CIPFA Audit Committee Position Statement 2022  
Appendix 3 – Draft Terms of Reference for adoption

Background papers

None