

AUDIT COMMITTEE

20 February 2019

Audit Committee Terms of Reference

Report of Internal Audit and Assurance Manager

PURPOSE OF REPORT

Annual Review of Audit Committee's Terms of Reference

This report is public

RECOMMENDATIONS

- (1) That the proposed revision of the Audit Committee's Terms of Reference be accepted and recommended to full Council for adoption.

1.0 Background

- 1.1 Audit Committees are a key component of corporate governance. Their overall purpose being to provide 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 process.
- 1.2 In March 2018, CIPFA re-issued their practical guidance for Audit Committees (Audit Committees Practical Guidance for Local Authorities and Police) and provided local authorities with a suggested terms of reference setting out the purpose and the core functions required. The terms of reference state that 'The purpose of an Audit Committee is to provide 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'. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

2.0 Proposed Revision

- 2.1 Since its last review in February 2018, whilst no further responsibilities have been assigned to the committee, a significant number of changes have been made to the terms of reference to ensure that it accurately reflects the work of the committee and that it takes into consideration the suggested terms of reference recommended by CIPFA. In particular, the requirements for the terms of reference to have a 'statement of purpose' which includes the committee's core purpose.
- 2.2 The amended terms of reference is attached as Appendix A.

3.0 Details of Consultation

- 3.1 None specifically regarding this report.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The options available are to accept the proposed revisions to the terms of reference for recommendation to Full Council, or recommend alternative wording if necessary.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Audit Committees Practical Guidance for
Local Authorities and Police 2018 Edition

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Audit Committee Terms of Reference – Current Revision

SECTION 8 – AUDIT COMMITTEE

Composition: 7 Members of the Council on a PR basis, Chairman and Members of the Committee appointed by Council annually. The Chairman must not be a member of Cabinet or Overview and Scrutiny. Changes can be made by Council during the course of the year.

Statement of Purpose

- 8.1 The audit committee is a key component of Lancaster City Council's corporate governance. It provides an independent high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 8.2 The purpose of an audit committee is to provide those charged with governance, independent assurance of the adequacy of the risk management framework and the internal control environment. It provides independent review of Lancaster City Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Core Functions

Governance, Risk and control

- 8.3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 8.4 To review the annual governance statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of audit's annual audit opinion.
- 8.5 To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 8.6 To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- 8.7 To monitor the effective development and operation of risk management in the council and monitor progress in addressing risk-related issues reported to the committee.
- 8.8 To monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 8.9 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

- 8.10 To approve the internal audit charter.
- 8.11 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations on their effectiveness.
- 8.12 To approve the risk-based internal audit plan, including resource requirements and the approach to using other sources of assurances and any work required to place reliance upon those other sources.

- 8.13 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 8.14 To approve and periodically review safeguards to limit impairments to independence or objectivity of the internal audit team.
- 8.15 To approve significant changes to the audit plan and resource requirements.
- 8.16 To consider reports from the head of internal audit on the performance during the year. This will include an update on the implementation of agreed recommendations.
- 8.17 To consider the head of internal audit's annual report.
- 8.18 To consider a report on effectiveness of internal audit to support the Annual Governance Statement and also any external assessments of effectiveness; i.e. the quality assessment of internal audit that takes place at least once every five years in accordance with the Public Sector Internal Audit Standards.
- 8.19 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External Audit

- 8.20 To receive and comment upon the External Auditor's Annual Plan, considering the scope and depth of external audit work and to ensure it gives value for money.
- 8.21 To monitor the External Auditor's progress with the Annual Plan.
- 8.22 To consider the external auditors' annual letter and the report to those charged with governance.
- 8.23 To consider specific reports as agreed with the external auditor.
- 8.24 To advise and recommend on the effectiveness of relationships between internal and external audit and other inspection agencies or relevant bodies.
- 8.25 To provide free and unfettered access to the audit committee chair for the external auditors, including the opportunity for a private meeting with the committee.

Financial Reporting

- 8.25 To review the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit Regulations 2015.
- 8.26 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 8.27 To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate.

Accountability Arrangements

- 8.28 To prepare an annual report to full Council setting out the committee's work and performance during the year in relation to the terms of reference and to refer to Council any matters it shall see fit.
- 8.29 To review any issue referred to it by the Chief Executive or any Council body.

Other core functions

- 8.30 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 8.31 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 8.32 To undertake the annual review of the council's use of the Regulation of Investigatory Powers Act 2000 (RIPA), ensuring compliance with the Code of Practice

8.33 With the exception of those parts of the Constitution, which are assigned specifically to the Council Business Committee, to consider and propose to Council any other amendments to the Constitution as necessary