

# AUDIT COMMITTEE

## Audit Committee Terms of Reference 24 January 2007

### Report of Internal Audit Manager

#### PURPOSE OF REPORT

To seek Members support for a number of proposed changes to the Audit Committee's Terms of Reference and recommend the changes to Council.

**This report is public**

#### RECOMMENDATIONS

- (1) That the proposed alterations to the Audit Committee's Terms of Reference are endorsed and a recommendation made to full Council that they be adopted into the Constitution.

#### 1.0 Introduction

- 1.1 Following CIPFA's publication of "*Audit Committees – Practical Guidance for Local Authorities*", a self-assessment of the Council's Audit Committee against the guide was undertaken and the results reported to its meeting on 25 January 2006. This report identified the potential for some minor amendments to the Committee's Terms of Reference which in themselves were not felt sufficient to warrant a revision of the Constitution.
- 1.2 As part of its review of Internal Audit during 2006, the Audit Commission recommended, and it was agreed, that the Audit Committee's Terms of Reference should be updated to reflect its role in providing assurance for the annual statement on internal control and corporate governance.
- 1.3 During the Audit Commission's 2005/06 and 2006/07 Use of Resources assessments, the importance and contribution of an effective Audit Committee to the organisation's system of internal control have been emphasised. Initial feedback on the 2006/07 assessment has commented that, whilst the Committee's Terms of Reference encompass the core functions as set out in the CIPFA guidance, they do require amendment to reflect changes in responsibility.

## 2.0 Proposal Details

- 2.1 These changes in responsibility referred to by the Audit Commission essentially relate to the Committee's role in reviewing corporate governance arrangements and most specifically, risk management. This role has developed in practice over the past two years with the Committee receiving reports on risk management at each meeting and considering and approving the annual Statement on Internal Control and Corporate Governance.
- 2.2 To attain the highest standards (level 4) under the Audit Commission's current criteria for Use of Resources (Internal Control), there is an expectation that the council should have established *"An audit committee ... that is independent of the executive function, with terms of reference that are consistent with CIPFA guidance. It provides effective challenge across the council and independent assurance on the risk management framework and associated internal control environment to members and the public, and can demonstrate the impact of its work"*. As regards the matter of "independence" CIPFA guidance is that the Chair should, expressly, not be a member of the executive. It also advises that *"to be effective, it should be independent of both the executive and of scrutiny..."* and *"...cross membership should not therefore be the norm and if it is seen as necessary, should be restricted to one member from each of executive and scrutiny"*.
- 2.3 By adopting the changes to the Terms of Reference already referred to, the Audit Committee will substantively meet the standard. Additional changes are proposed to satisfy the points made in the UoR criterion concerning membership and that the Committee should demonstrate the impact of its work. To meet this latter requirement, it is proposed that the Committee should prepare an annual report to Council setting out its work and performance during the year. This aligns neatly with the requirement for the Executive and Overview & Scrutiny function to report annually on their performance.
- 2.4 The following table sets out the proposed changes to the Committee's Terms of Reference to address the points identified in last year's self-assessment and the comments made by the Audit Commission.

Existing paragraph	New paragraph
Composition	Add that the Chairman must not be a member of Cabinet and that membership should include no more than one member each from Cabinet and Scrutiny.
n/a	To review any issue referred to it by the Chief Executive or a Director or any Council body
n/a	To approve a Statement of Purpose for the Audit Committee
n/a	To be consulted as part of the process in agreeing the appointment by the Audit Commission of the Council's external auditor

Existing paragraph	New paragraph
12. To monitor the effectiveness of the Code of Corporate Governance	To monitor the effective development and operation of risk management and corporate governance in the Council; and  To oversee the production of the authority's Statement on Internal Control and Corporate Governance and to recommend its adoption.
13 To refer to Council any matter it shall see fit.	To prepare an annual report to Full Council setting out the Committee's work and performance during the year; and  To refer to Council any matter it shall see fit

### 3.0 Details of Consultation

3.1 Not applicable

### 4.0 Options and Options Analysis (including risk assessment)

4.1 The options are to adopt all, any or none of the proposed changes to the Audit Committee's Terms of Reference. In essence, the proposals reflect the current role and operation of the Committee and represent a "catch-up" position in relation to the ToR. The only proposal creating an additional duty is that relating to the presentation of an annual report to Council.

4.2 The main risk/opportunity lies in the potential for these measures to improve and demonstrate the effectiveness of the Audit Committee and also to contribute to an improved Use of Resources assessment.

### 5.0 Officer Preferred Option

5.1 For the reasons mentioned in § 4.2, the officer preferred option is that all the proposed changes to the Committee's Terms of Reference are endorsed and recommended to Council for approval.

### 6.0 Conclusion

6.1 This report brings up to date a number of points arising over the past year in relation to the Audit Committee's Terms of Reference. Adoption of the proposed changes will position the Committee in line with current best practice guidance.

#### **CONCLUSION OF IMPACT ASSESSMENT**

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

Not applicable

#### **FINANCIAL IMPLICATIONS**

None arising from this report

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has been consulted and has no further comments.

**LEGAL IMPLICATIONS**

None arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

**BACKGROUND PAPERS**

Internal Audit Plan 2006/07

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