

AUDIT COMMITTEE

22 March 2023

Annual Review of the Audit Committee Terms of Reference Report of Head of Internal Audit

PURPOSE OF REPORT

Annual Review of the Audit Committee's Terms of Reference

This report is public

RECOMMENDATIONS

(1) That the Audit Committee's Terms of Reference be accepted and adopted and referred to Full Council for approval.

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. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

1.2 In October 2022, 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 term of reference setting out the purpose and the core functions required.

2.0 Proposed Revisions

2.1 Since the terms of reference were last reviewed (March 2022), amendments have been made in line with the new guidance. Appendix A shows the various amendments and changes with Appendix B providing a clean copy of the Terms of Reference incorporating all the suggested revisions.

3.0 Details of Consultation

3.1 None specifically regarding this report, however a recent review of the Audit Committees effectiveness confirmed that the current terms of reference conform to CIPFA's guidance and best practice.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available are to accept the terms of reference attached at Appendices A & B 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. Full Council is the body responsible for agreeing and/or amending the Terms of Reference for Committees.

BACKGROUND PAPERS

Guiding the Audit Committee. Supplement to Audit Committee member guidance' 2022 edition

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Ref:

Audit Committee Terms of Reference

SECTION 6 – AUDIT COMMITTEE

Composition: Seven Councillors in political balance. Chair appointed by Council annually.

The Chair and Vice Chair must not be a member of the Cabinet or an Overview and Scrutiny Committee.

The Committee has the right of access to all the information it considers necessary in connection with the work of the Committee and may consult directly with Internal and External Auditors.

Governance

6.1 The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of Purpose

6.2 The audit committee is a key component of Lancaster City Council's corporate governance. The committee's purpose is to provide ~~It provides and~~ an independent high-level focus on the adequacy of governance, risks and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective. ~~audit, assurance and reporting arrangements that underpin good governance and financial standards.~~

6.3 ~~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, together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability. ~~efficient and effective assurance arrangements are in place.~~

Core Functions

Governance, Risk and control

6.4 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.

6.5 To review the annual governance statement (AGS) and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of audit's annual audit opinion.

- 6.6 To consider whether the annual evaluation for the annual governance statement fairly concludes that governance arrangements are fit for purpose, supporting achievement of the authority's objectives.
- 6.7 To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 6.8 To consider the reports on the effectiveness of the financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- 6.9 To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- 6.10 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.
- 6.11 To monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 6.12 To monitor the counter fraud strategy, actions and resources.
- 6.13 To review the governance and assurance arrangements for significant partnerships or collaborations.
- Arrangements for audit and assurance** 6.14 To consider the Councils framework of assurance and ensure that it adequately addresses the risks and priorities of the Council

Internal Audit

- 6.15 To approve the internal audit charter.
- 6.16 To review proposals made in relation the appointment of external providers of internal audit services and to make recommendations on their effectiveness.
- 6.17 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.
- 6.18 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 6.19 ~~To approve and periodically review safeguards to limit impairments to independence or objectivity of the internal audit team.~~ To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- 6.20 To approve significant interim changes to the risk-based audit plan and resource requirements.
- 6.21 To consider reports from the head of internal audit on the performance during the year, including the performance of external providers of internal audit services
These will include:
- Updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work.

- Regular reports on the results of Quality Assurance Improvement Programme (QAIP)
- Reports on instances where the internal audit function does not conform with Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough that it must be included in the AGS

~~This will include an update on the implementation of agreed recommendations.~~

- 6.22 To consider the head of internal audit's annual report including
- The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
 - The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS)
- 6.23 To consider summaries of specific internal audit reports as requested.
- 6.24 To receive reports outlining action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are any concerns about progress with the implementation of agreed actions.

~~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.~~

- 6.25 To contribute to the QAIP and in particular the external quality assessment of internal audit that takes place at least once every five years.
- 6.26 To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations.
- 6.27 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

- 6.28 To support the independence of External Audit through consideration of any External Auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor pane; as appropriate.
- 6.29 To receive and comment upon the scope and depth of the External Auditor work, considering the scope and depth of external audit work and to ensure it gives value for money.
- 6.30 To monitor the External Auditor's progress with the Annual Plan.
- 6.31 To consider the external auditors' annual letter, relevant reports and the report to those charged with governance.
- 6.32 To consider specific reports as agreed with the external auditor.
- 6.33 To advise and recommend on the effectiveness of relationships between internal and external audit and other inspection agencies or relevant bodies.

6.34 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.

6.35 To consider periodically (at least annually) whether the Auditors appointed to carry out the External Audit function remain independent and objective and, that their judgement in carrying out that role has not been impaired as a consequence of their participation in any non-audit reviews, services or advice provided to the Council.

6.36 To consider additional commissions of work from external audit.

Financial Reporting

6.37 To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.

6.38 To review the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit Regulations 2015. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

6.39 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

6.40 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

6.41 To report to those charged with governance on the committee's 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 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 and the effectiveness of the committee in meeting its purpose. ~~any matters it shall see fit.~~

6.42 To publish an annual report on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.

To review any issue referred to it by the Chief Executive or any Council body.

Other core functions

6.43 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.

6.44 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.

6.452 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

6.46 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

Audit Committee Terms of Reference

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6.6 To consider whether the annual evaluation for the annual governance statement fairly concludes that governance arrangements are fit for purpose, supporting achievement of the authority's objectives.

6.7 To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

6.8 To consider the reports on the effectiveness of the financial management arrangements, including compliance with CIPFA's **Financial Management Code**.

- 6.9 To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
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- 6.18 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 6.19 To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- 6.20 To approve significant interim changes to the risk-based audit plan and resource requirements.
- 6.21 To consider reports from the head of internal audit on the performance during the year, including the performance of external providers of internal audit services
These will include:
- Updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work.
 - Regular reports on the results of Quality Assurance Improvement Programme (QAIP)
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To review any issue referred to it by the Chief Executive or any Council body.

Other core functions

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