

## **Appendix 1 New Terms of Reference for the Audit Committee**

### **B14. Audit Committee**

#### **14.1 Statement of purpose**

The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk management and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control provides greater confidence to all those charged with governance that those arrangements are effective.

The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

#### **14.2 Governance, risk and control**

1. To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
2. To monitor the effective development and operation of risk management in the council.
3. To monitor progress in addressing risk-related issues reported to the committee.
4. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
5. To consider reports on the effectiveness of financial management arrangements, including compliance with Chartered Institute of Public Finance and Accountancy's (CIPFA) Financial Management Code.
6. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
7. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
8. To monitor the counter fraud strategy, actions and resources.
9. To review the governance and assurance arrangements for significant partnerships or collaborations.

#### **14.3 Financial and governance reporting**

Governance reporting:

1. To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
2. To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

Financial reporting:

1. To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
2. To review the annual statement of accounts. 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.

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

#### **14.4 Arrangements for audit and assurance:**

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

External audit:

1. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA) or the authority's auditor panel as appropriate.
2. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
3. To consider specific reports as agreed with the external auditor.
4. To comment on the scope and depth of external audit work and to ensure it gives value for money.
5. To consider additional commissions of work from external audit.
6. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
7. To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

Internal audit

1. To approve the internal audit charter.
2. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
3. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
4. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
5. 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. 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.
7. To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a. updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - b. regular reports on the results of the Quality Assurance and Improvement Programme (QAIP)
  - c. reports on instances where the internal audit function does not conform to the 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 Annual Governance Statement.

8. To consider the head of internal audit's annual report, including:
  - a. 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)
  - b. 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).
9. To consider summaries of specific internal audit reports as requested.
10. To receive reports outlining the 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 concerns about progress with the implementation of agreed actions.
11. To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.
12. 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.
13. 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.

#### **14.5 Accountability arrangements**

1. 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.
2. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
3. To publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement 2022 (See below).

#### **14.6 Membership**

1. Members of the Audit Committee, and its Chair, are appointed by Full Council. There are eight members of the committee, and the quorum is three.
2. The Chair of Audit Committee should not be appointed to serve as a director on any of the City Council's wholly owned companies.
3. An Independent Technical Advisor should be appointed to support the Committee.

#### **14.7 Conflicts of interest**

1. If a Cabinet Adviser (or former Cabinet Adviser) is a member of the Audit Committee when it is considering matters to which their role relates, then that Councillor must withdraw from the meeting during the consideration of such matter.
2. If the Audit Committee is considering items relating to the work of a relative of a member of the Committee, then that Councillor must withdraw from the meeting during the consideration of such matter.

#### **14.8 Review of these Terms of Reference**

These Terms of Reference are to be reviewed annually to ensure they remain appropriate, reflect best practice and align to relevant standards and regulations.

*Previous Terms of Reference – for information only*

## **B14. AUDIT COMMITTEE**

### **14.1 Purpose**

*i. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance.*

### **14.2 Functions**

*a) To review the City Council's Annual Accounts and Annual Governance Statement (AGS). This will include advising on significant changes throughout the year to financial regulations and policies.*

*b) To monitor progress in addressing control or governance issues identified in the AGS.*

*c) To review and provide the Executive with assurance on the embedding and maintenance of an effective system of corporate governance, including the Council's Corporate Governance Code and Framework, risk management framework, and the associated control environment.*

*d) To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.*

*e) To review the adequacy of treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices.*

*f) Responsibilities as set out in the terms of reference in relation to external audit including reviewing the planned programme of work, noting fees and terms of engagement of the external auditor, considering, and advising the executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.*

*g) To review and make recommendations to the executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge, and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.*

*h) To consider and make recommendations to the executive on the Council's arrangements for deterring, preventing, detecting, and investigating fraud.*

*i) To consider reports from the Ombudsman and monitor management response in relation to these.*

*j) To consider, approve or make recommendations in respect of any other matters at the request of the Council.*

### **14.3 Membership**

*i. Members of the Audit Committee, and its Chair, are appointed by Full Council. There are eight members of the committee, and the quorum is three.*

*ii. The Chair of Audit Committee should not be appointed to serve as a Director on any of the City Council's wholly owned companies.*

*iii. An Independent Technical Advisor should be appointed to support the Committee.*

#### *14.4 Conflicts of interest*

*iv. If a Cabinet Adviser (or former Cabinet Adviser) is a member of the Audit Committee when it is considering matters to which their role relates, then that Councillor must withdraw from the meeting during the consideration of such matter.*

*v. If the Audit Committee is considering items relating to the work of a relative of a member of the Committee, then that Councillor must withdraw from the meeting during the consideration of such matter.*

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## CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

### Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

### Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives.

CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The 2022 edition of the position statement replaces the 2018 edition.

**The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.**

## CIPFA's Position Statement 2022: Audit committees in local authorities and police

### Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

The committee has oversight of both 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.

### Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

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.

### Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

#### Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

#### Financial and governance reporting

- Be satisfied that the authority's accountability 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.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

#### Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and conformance to professional standards
  - support effective arrangements for internal audit
  - promote the effective use of internal audit within the assurance framework.



- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

### Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
  - promoting apolitical open discussion
  - managing meetings to cover all business and encouraging a candid approach from all participants
  - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

## Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

## Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.