

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director for Corporate Services

to

Audit Committee

on

21 September 2016

Report prepared by: Linda Everard, Head of Internal Audit

Audit Committee Terms of Reference

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present a new Terms of Reference for the Audit Committee that reflects the current good practice guidelines set out in the publication, CIPFA, Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition.

2. Recommendations

- 2.1 **The Audit Committee approves the Terms of Reference and recommends its adoption to Council.**

3. Background

- 3.1 The first version of the UK Corporate Governance Code (the Code) was produced in 1992 by the Cadbury Committee and it has been updated a number of times since (the most recent version being published in April 2016). It is this document that developed the principle that *'the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors'*. The Code then requires an audit committee to be established to do this and sets out how it should operate.
- 3.2 This Code has then been taken by the relevant professional / lead body for each sector, and tailored to reflect its specific operating environment.
- 3.3 There is no statutory requirement in local government to have an Audit Committee although this is now considered to be good practice. However the Accounts and Audit Regulations 2015 require councils to:
- conduct a review of the effectiveness of its system of internal control each financial year
 - prepare an annual governance statement
 - present the findings of this review to a committee or full Council to consider prior to approving the annual governance statement.

This is the role that has been delegated to the Audit Committee by Council.

- 3.4 This statutory requirement is then supported by good practice guidance, which consists of:
- CIPFA / Solace, Delivering Good Governance in Local Government, Framework 2016 Edition
 - CIPFA, Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition.

4. Terms of Reference

- 4.1 The Audit Committee's Terms of Reference is due for review so as part of this exercise, its compliance with the current good practice guidance was also assessed.
- 4.2 The new Terms of Reference is attached at Appendix 1. It contains a number of standard elements, i.e.:
- whether Cabinet members can have a role on the Audit Committee
 - the expectation that one member should have financial expertise
 - its powers to invite officers or councillors to attend to provide assurance in relation to the risk management, governance or control arrangements pertaining to their areas of activity or responsibility
 - that the Audit Committee reports to and discharges its duties on behalf of Council.
- 4.3 The only amendments made to these elements reflect that:
- the Committee now meets four instead of five times a year (refer 8.3.4)
 - going forward, there will no longer be a Corporate Director of Corporate Services role invited to attend every meeting (refer 8.3.5).
- 4.4 The key changes are to sections 8.3.1 to 8.3.3 which now set out the Audit Committee's purpose and remit.
- 4.5 In the last few years, a number of good practice governance type documents have been updated to introduce consistency across the framework the public sector / local government is expected to apply. The current Audit Committee guidance now reflects this although it does not change its purpose or remit fundamentally.
- 4.6 Therefore, the new Terms of Reference includes, from the guidance, the:
- 'purpose' which is now framed using the common terms such as 'governance, risk management and control' that are reflected throughout the public sector governance framework e.g. UK Public Sector Internal Audit Standards / Good Governance Guidance
 - 'remit', instead of making reference to a work programme and what it will cover.
- 4.7 The new Terms of Reference now reflects the Council's current operating arrangements as well as good practice guidance.

5. Independent, Co-opted Audit Committee member

- 5.1 The Council has recently advertised for a new co-opted member to join its Audit Committee. The closing date for applications is 23rd September 2016. Successful candidates will be invited for interview with the Chair and Vice Chair of the Audit Committee. The recommended appointment will then be taken to Council for approval.

6. Corporate Implications

6.1 Contribution to Council's Aims and Priorities

The work of the Audit Committee contributes to the delivery of all corporate Aims and Priorities.

6.2 Financial Implications

None.

6.3 Legal Implications

Refer to Background, Section 3.

6.4 People and Property Implications

None.

6.5 Consultation

None.

6.6 Equalities Impact Assessment

None.

6.7 Risk Assessment

Without an effective Audit Committee, the Council is at risk of not obtaining ongoing assurance as to the robustness of its risk management, governance and control framework. An ineffective system of internal control potentially puts the delivery of Council services at risk.

6.8 Value for Money

None.

6.9 Community Safety Implications and Environmental Impact

None.

7. Background Papers

- The Accounts and Audit Regulations 2015
- Audit Committee Practical Guidance for Local Authorities and Police 2013 Edition
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendix

Appendix 1 Audit Committee Terms of Reference