

AUDIT COMMITTEE – 28 September 2018

Title of paper:	AUDIT COMMITTEE TERMS OF REFERENCE	
Director(s)/ Corporate Director(s):	Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Head of Audit and Risk 0115-8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Endorse for submission to the Council the update to the role and functions of the Audit Committee to comply with best practice in the 2018 revision of CIPFA guidance on Audit Committees (the 2018 Guidance) including the additional elements prescribed by the Public Sector Internal Audit Standards (PSIAS) as set out in Appendices 1 and 2	

1 REASONS FOR RECOMMENDATIONS

- 1.1 The Terms of Reference should be reviewed by the Committee on a regular basis, to ensure that they remain relevant and reflect best practice. The current Audit Committee Terms of Reference were updated in June 2018 by the Council, to comply with and implement changes to nationally agreed conditions of service for Chief Executives.
- 1.2 The Terms of Reference presented for endorsement at Appendices 1 and 2, have been updated based on the Position Statement on Audit Committees in Local Authorities and Police issued by CIPFA in 2018. Changes reflected in the 2018 Position Statement include the introduction of the Public Sector Internal Audit Standards, updates to best practice on good governance and to managing the risk of fraud.
- 1.3 Audit Committees are necessary to satisfy the legal and governance requirements for sound management and internal control. Specifically they help satisfy
 - section 151 of the Local Government Act 1972 which requires every local authority to ‘make arrangements for the proper administration of its financial affairs’, and
 - the Accounts & Audit Regulations 2015 which require that the authority ensures that it has a sound system of internal control which:
 - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk.
- 1.4 In local authorities an Audit Committee reports to Council, is independent of both the executive and the scrutiny functions, acts as the principal non-executive advisory function to those charged with governance, and has clear rights of access to other committees/functions.
- 1.5 This report outlines the core functions of the Audit Committee, the benefits that will arise for the City Council and an outline annual work programme.

1.6 Role of the Audit Committee

The overarching purpose of an Audit Committee is to provide to those charged with governance, independent assurance on the adequacy and integrity of

- the governance and control environment,
- the Risk Management Framework, and
- the annual financial reporting process.

1.7 Benefits of the Audit Committee

The benefits to be gained from operating an effective Audit Committee are shown in the diagram below:



1.8 Functions of the Committee

The Audit Committee fulfils the following functions

- functions listed in Appendix 1 under delegations from Executive Board as noted in the Constitution – Responsibilities for Functions and Terms of Reference, with updates from 2018 Guidance for approval by Council
- functions listed in Appendix 2 under PSIAS as a consequence of the Accounts and Audit Regulations 2015 for approval by Council.

2 **BACKGROUND**

2.1 An Audit Committee is central to the provision of effective corporate governance, which partly depends on a systematic strategy, clear framework and processes for managing risk. Good governance also helps to deliver improved services and maintains and increases public confidence in the objectivity and fairness of financial and other reporting. It is important that local authorities have independent assurance about the mechanisms underpinning governance.

- 2.2 It is recognised that high performing councils develop effective financial and non-financial control mechanisms. The development of expertise made available by the establishment of an Audit Committee, meeting on a regular cycle, and with Terms of Reference focussed on the key audit, control, assurance and risk management areas critical to the Council's performance is a key part of these mechanisms.
- 2.3 In accordance with CIPFA guidance, the Committee is politically balanced and will not have Executive membership. Membership will continue to be reviewed in accordance with guidance from the Ministry of Housing Communities & Local Government (MHCLG).

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

- 3.1 None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- 4.1 Audit Committees – Practical Guidance for Local Authorities and Police (CIPFA 2018)
- 4.2 Public Sector Internal Audit Standards (Local Government Application Note) (CIPFA 2017)