

## **DRAFT REVISED TERMS OF REFERENCE**

**Report By: Chief Internal Auditor**

### **Wards affected**

1. County-wide.

### **Purpose**

2. To present to the Committee for consideration the draft revised terms of reference for the Audit and Governance Committee.

### **Financial Implications**

3. None.

### **Recommendation**

**THAT (a) Subject to any comments by the Audit & Corporate Governance Committee, the draft revised terms of reference and the proposed change of name to Audit and Governance Committee be put forward for consideration by the Constitutional Review Group.**

### **Reasons**

4. It is necessary to demonstrate compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. In order to do this, the terms of reference should be subject to periodic review.

### **Considerations**

5. The current terms of reference (Appendix 1 refers) were approved by Council at its meeting on 28<sup>th</sup> July 2006.
6. The Terms of Reference form part of the council's constitution and will require full council to agree the final version.

7. The Chartered Institute of Public Finance and Accountancy (CIPFA) code of Practice for Internal Audit states that the purpose of an audit committee is to :
  - i) Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
  - ii) Provide independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and
  - iii) Oversee the financial reporting process.
8. The code also highlights that the Audit Committee role is different from that of the scrutiny function, the major difference being the purpose of the scrutiny function is to review policy and to challenge whether the executive has made the right decisions to deliver policy goals.
9. In comparison with a scrutiny function, the Chartered Institute of Public Finance and Accountancy's (CIPFA) latest best practice guidance for Audit Committees highlights their role as being:
  - To consider the effectiveness of the council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements;
  - Seek assurance that action is taken on risk related issues identified by auditors and inspectors;
  - Satisfy themselves that the council's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it;
  - Approve (but not direct) Internal Audit's strategy, Audit plan and oversee performance;
  - Review summary internal audit reports and the main issues arising and seek assurance action is taken where necessary;
  - Receive the annual report of the Head of Internal Audit;
  - Consider the reports of external audit and inspection agencies;
  - Ensure there are effective relationships between external and internal audit inspection agencies and other relevant bodies;
  - Ensure the organisation's activity promotes the value of the audit process; and

10. Review the financial statements, external auditor's opinion and reports to members and oversee management action in response to the issues raised by external audit.
11. The requirements as set out in paragraph 9 above have been highlighted in the draft revised terms of reference, along with the suggested actions required by the committee to meet the CIPFA requirements. (Appendix 2 refers).
12. Matters not covered by the latest CIPFA guidance have been added at paragraph 11 of the draft revised terms of reference.

The process of review involved assessing the Terms of Reference of other authorities with good performance ratings.

### **Risk Management**

13. There is a risk that the Audit and Corporate Governance Committee does not meet the CIPFA terms of reference, which would have an adverse impact on the Council's Use of Resources. The actions required by the committee have been linked to the CIPFA guidance.

#### BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006
- Audit Committees – Practical guidance for Local Authorities 2005