

# **WAVERLEY BOROUGH COUNCIL**

## **AUDIT COMMITTEE**

**14 SEPTEMBER 2020**

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**Title:**

**Audit Committee – Terms of Reference**

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**Portfolio Holder:** Cllr John Ward, Leader of the Council; Cllr Paul Follow, Deputy Leader of the Council

**Head of Service:** Robin Taylor, Head of Policy & Governance

**Key decision:** No

**Access:** Public

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### **1. Purpose and summary**

- 1.1 This report follows-up on an outstanding action, for the Audit Committee to review its own Terms of Reference in relation to the current CIPFA Guidance for Local Authority Audit Committees.
- 1.2 Using the CIPFA Guidance 2018, there is an opportunity to review the Audit Committee Terms of Reference against best practice and in the wider context of the council's governance review; and also to review its own effectiveness in fulfilling the remit which will inform future learning and development needs for the committee members.

### **2. Recommendation**

It is recommended that:

1. The Audit Committee makes recommendations to the Governance Review Working Group and Standards Committee on adopting the Model Local Authority Audit Committee Terms of Reference as set out in the *CIPFA Audit Committee Practical Guidance 2018*, with particular reference to:
  - Statement of Purpose of the Audit Committee
  - Membership of the Audit Committee, including appointment of an independent committee member;
  - Number of public and private (or formal/informal) meetings a year;
  - Inclusion of wider functions such as Local Standards and Ethics and/or reviewing and monitoring treasury management functions, within the Committee's remit.
2. The Audit Committee carries out a review of its effectiveness, following the template in the *CIPFA Audit Committee Practical Guidance 2018*, to inform future training and development needs of the Committee.

### 3. Reason for the recommendation

The Audit Committee is a key component of the Council's governance framework. It is entirely appropriate that the Committee contributes to the Council's review of its overall governance arrangements, with a particular focus on its own place and role in those arrangements. Similarly, the Committee should, on a regular basis, reflect on its own effectiveness and identify what learning and development is required for Members in order that they can carry out their role as Audit Committee Members.

### 4. Background

- 4.1 The Terms of Reference of the Audit Committee (**attached at Annexe 1**) were last updated by Council on 20 February 2018. Subsequent to that, and prior to the local elections in May 2019, the Audit Committee Chairman and Vice-Chairman had raised a number of issues where they felt there was potential overlap between the roles of the Audit Committee and Overview and Scrutiny.
- 4.2 At its meeting on 4 March 2019, the Audit Committee reviewed the CIPFA 2018 *Audit Committees: Practical Guidance for Local Authorities and Police* [the CIPFA Guidance 2018 – **attached at Annexe 2**] on the function and operation of audit committees. The CIPFA Guidance 2018 represents CIPFA's view of best practice for audit committees in local authorities throughout the UK. The key changes in the CIPFA's 2018 guidance (compared to the 2013 edition) relate to the following areas:
- in local authorities, the Audit Committee should be independent of both the executive and the scrutiny functions, and include an independent member where this is not already mandated by legislation;
  - additional guidance on how the Audit Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
  - additional guidance on how the Audit Committee can support independence of the external auditor and monitor the external audit process.
- 4.3 The Guidance includes:
- suggested terms of reference for local authority audit committees (Appendix B);
  - commentary on the characteristics of good audit committees, and common areas of difficulty for audit committees; and
  - approaches to improvement and evaluating effectiveness (Appendix D, Appendix E).
- 4.4 The Audit Committee recommended that a draft of revised terms of reference be brought back to the Audit Committee following detailed consideration of the CIPFA Guidance 2018.
- 4.5 Due to the significant change in the membership of the Audit Committee following the May 2019 elections, the immediate priority for the Committee members has been to develop their understanding of the Committee's role and purpose. It is now timely for the Audit Committee to reflect on its role and effectiveness going forward, to ensure that the Audit Committee is fulfilling its function of providing an independent and high level resource to support good governance and strong public financial management.

- 4.6 Unsurprisingly, there is a great deal of similarity between the Audit Committee's agreed Statement of Purpose and Core Functions, and those as set out in the Model Terms of Reference in the CIPFA Guidance 2018, with the latter being somewhat more detailed. Officers have no hesitation in recommending that the Model Statement of Purpose and Core Functions are adopted.
- 4.7 The Model Terms of Reference set out best practice for Audit Committees in terms of Independence and Accountability, including membership being independent of the executive and scrutiny functions, and there being an independent committee member. At Waverley, Executive Members are excluded from the Audit Committee, and there is considerable overlap in the membership of the Audit Committee and the Overview & Scrutiny Committees. Waverley does not include an independent member on its Audit Committee. The Audit Committee is asked to consider whether, in principle, it agrees with CIPFA best practice that there should be separation between the Audit Committee and scrutiny functions, and/or an independent member, so that this can be taken into account by the Governance Review Working Group in looking at the council's governance arrangements across the board.
- 4.8 The CIPFA Guidance 2018 also notes that in some local authorities the Audit Committee may take on a wider corporate governance role including, for example, responsibility for ethical standards or the treasury management framework. These functions are carried out at Waverley by the Standards Committee, and the Value for Money Overview & Scrutiny Committee. There is potential to avoid some of the potential overlap in committee responsibilities by having one 'Corporate Governance & Audit Committee', and the Audit Committee is asked to agree comments to be passed to the Governance Review Working Group in relation to taking on a wider remit.
- 4.9 The Audit Committee membership largely comprises Members who were newly elected to the Council in May 2019. Induction training was provided for the new Audit Committee, and there have been ad hoc briefings for the Committee including most recently on risk management and the annual accounts. Given the technical nature of the Committee's role, it is timely for the Committee Members individually and collectively to reflect on their performance and how this might inform future learning and development needs. The CIPFA Guidance 2018 includes a self-evaluation template for this purpose.
- 4.10 The Audit Committee is a key component of the Council's governance framework, and should demonstrate good governance principles and independence through the way it operates, drawing on the best practice guidance as set out by CIPFA.

## **5. Relationship to the Corporate Strategy and Service Plan**

- 5.1 An effective Audit Committee is key to supporting the Council's vision for transparent, open and participative governance.

## **6. Implications of decision**

### **6.1 Resource (Finance, procurement, staffing, IT)**

*To be completed in liaison with Finance/HR. These are the substantive resource*

*comments.*

## **6.2 Risk management**

“Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly-based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.” *CIPFA Guidance 2018 Appendix D (page 73).*

## **6.3 Legal**

*Reports should be sent to legal services for review at least 4 working days before the final agenda reports deadline.*

## **6.4 Equality, diversity and inclusion**

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

## **6.5 Climate emergency declaration**

*Should the Audit Committee have a specific role in relation to giving assurances around the council’s compliance with the climate emergency declaration, or the outcomes reported in the action plan? Is that embedded in other functions implicitly?*

## **7. Consultation and engagement**

7.1 The Audit Committee is asked to provide comments on its Terms of Reference, to inform the wider governance review being undertaken by the Governance Review Working Group.

## **8. Other options considered**

8.1 It is good practice for the Committee to keep its Terms of Reference under review, and there is an outstanding action to do so. The starting point for the review should be the latest CIPFA Guidance.

## **9. Governance journey**

9.1 The feedback from the Audit Committee will be reported to the Governance Review Working Group in the first place, to inform the rral governance review. Any changes to the Audit Committee’s Terms of Reference will need to be approved by Full Council on the recommendation of the Standards Committee.

## **Annexes:**

Annexe 1 – Audit Committee Terms of Reference (20 Feb 2018)

Annexe 2 – *CIPFA Audit Committee Practical Guidance 2018*

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## **Background Papers**

There are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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Agreed and signed off by:

Legal Services: date

Head of Finance: date

Strategic Director: date

Portfolio Holder: date