



Committee and Date

Audit Committee

7 December 2012

10.00 am

Item

10

Public

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

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1. Summary

Effective audit committees bring many benefits to an organisation and to ensure that the Council continues to provide an effective Audit Committee, the Audit Committee's Terms of Reference are considered and approved as appropriate by members on an annual basis, only minor changes to reflect revised officer post details are proposed in this report.

2. Recommendations

Members are asked to consider and endorse the current Audit Committee Terms of Reference with appropriate comment.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Audit Committee terms of reference are reviewed annually to ensure that they are fit for purpose and up to date; thereby clarifying the role of the Audit Committee and ensuring that the Council has robust internal control arrangements in place.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

There are no financial implications.

5. Background

5.1 The Terms of Reference for the Audit Committee were originally agreed by Council in 2005. Part of the responsibility of this Committee is to review annually the Terms of Reference to ensure they are current and up to date and make recommendations for changes to Full Council for consideration.

5.2 Effective audit committees bring many benefits to the Council. They can:

- Increase public confidence in the objectivity and fairness of financial and other reporting;
- Reduce the risk of illegal or improper acts;
- Reinforce the importance and independence of internal and external audit and any other review processes that report to the Committee;
- Provide a sharper focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of financial reporting;
- Assist the co-ordination of sources of assurance and, in so doing, make management more accountable;
- Provide additional assurance through a process of independent and objective review;
- Raise awareness of the need for internal control and the implementation of audit recommendations.

It is therefore important that the Terms of Reference are reviewed to ensure that best practice guidance is incorporated.

5.3 There are minor proposed changes to the Terms of Reference to reflect present officer structures which are highlighted in bold and underlined in the attached **Appendix A**.

5.4 CIPFA are planning to revise their “Audit Committee Practical Guidance for Local Authorities CIPFA 2006” in the new year and with discussions continuing in relation to the future of local audit, the terms of reference will need to be revisited to reflect any proposed changes and once known these will be brought to members for their consideration.

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| List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) |
| Audit Committee Practical Guidance for Local Authorities CIPFA 2006 TIS Online CIPFA November 2008 Audit Committee Various consultation documents on the Future of Local Audit |
| Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee) |
| Local Member N/A |
| Appendices A - Audit Committee Terms of Reference |

AUDIT COMMITTEE TERMS OF REFERENCE

1.0 **Purpose**

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated internal control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2.0 **Membership**

2.1 The Audit Committee must remain apolitical. It must display unbiased attitudes, treating auditors, the executive and management equally. It also has the ability to challenge the Leader and **the Head of Paid Service** when required. The Audit Committee will comprise:

- Five Members in accordance with the political balance rules being four Conservative and one Liberal Democrat who may be represented by designated substitutes in their absence. Any designated substitute must be appropriately trained. None of the Members should be Members of the Executive or Scrutiny Chairs or Vice Chairs.
- The Section 151 Officer and the Audit Service Manager will normally attend every meeting. Should the Section 151 Officer feel there was an item on the agenda which would benefit from the Leader's presence, or the presence of a Portfolio Holder, the Chairman of the Audit Committee would be informed and he could invite the Leader or Portfolio Holder to attend.

2.2 Other officers will be invited to attend as and when required.

2.3 There will be a standing invitation to the External Auditor to attend all meetings and he/she should attend the Audit Committee at least twice a year to report on the findings of the audit of the Council.

3.0 **Meetings**

3.1 The Audit Committee will meet at least four times a year. The Chairman of the Audit Committee may convene additional meetings as he/she deems necessary.

3.2 The **Head of the Paid Service**, the Section 151 Officer, or the Audit Service Manager may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

3.3 The Audit Committee, Audit Service Manager and external audit have the opportunity for private discussions without the Section 151 Officer or other executive directors being present if issues need exploring in this forum.

3.4 The Corporate Head of Legal and Democratic Services is responsible for ensuring the Audit Committee is serviced with all necessary papers and support to enable it to fully discharge its responsibilities.

4.0 **Reporting**

An annual report from the Audit Committee will be considered by Council. This will raise any issues of concern to Council and provide its opinion on the adequacy and effectiveness of the Council's internal control and risk management arrangements. It will also identify where in their view, the Audit Committee have added value and improved or promoted the control environment.

5.0 **Core Functions**

5.1 The Audit Committee's core functions will be to:

- Approve, but not direct, the internal audit strategy and plans ensuring that appropriate risk assessments have been carried out when formulating internal audit plans; and to monitor performance against the plan.
- Review summary internal audit reports and the main issues arising, and seek assurance from management that action has been taken where necessary.
- Receive the annual report of the Audit Service Manager.
- Consider the reports of external audit and other inspection agencies.
- Ensure that there is effective liaison between external and internal audit and other relevant bodies and that the value of the audit process is actively promoted.
- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated counter fraud and anti-corruption arrangements.
- Consider the robustness of the authority's Treasury Strategy Reports before their submission to Cabinet and full Council.
- Seek assurances that action is being taken by management on risk related issues identified by auditors and inspectors, resolving any outstanding differences between internal audits and management when action or major recommendations have not been agreed.
- Be satisfied that the authority's assurance statements, including the Annual Governance Statement (AGS) properly reflect the risk environment and any actions required to improve it.
- Review the audit planning proposals, monitor progress against the audit plan, review the financial statements, external auditor's opinion and reports to members on the Statement of Accounts and monitor management action in response to the issues raised by external audit.

5.2 In carrying out the core functions the Audit Committee will approve an annual work plan. This will enable members to consider, review and as appropriate approve:-

- An annual review of the Terms of Reference for the Audit Committee to ensure they are current and up-to-date and make recommendations for change to Full Council for consideration.

- Any proposals for the revision of the Terms of Reference of Internal Audit.
- The Audit Service Managers' Annual Report and opinion on the authority's framework of Internal Controls.
- Half yearly reports on the work completed by Internal Audit and the progress made by directorates in implementing recommended actions.
- Revisions to the annual audit plan as advised by the Audit Service Manager and agreed by the Section 151 Officer.
- The authority's Statement of Accounts before submission to full Council.
- A report on the review of the adequacy of the Council's Corporate Governance arrangements.
- A report on the effectiveness of the system of Internal Audit.
- A report on the review of the adequacy of the Council's risk management arrangements.
- The authority's Annual Governance Statement.
- The External Auditor's Work Plan, including comments on the scope and depth of external audit work and to ensure it gives value for money.
- The External Auditor's Management Letter.
- The Annual Governance Report from the External Auditor following completion of the annual audit of the Accounts.
- Reports on any joint projects undertaken by Internal and External Audit.
- Reports on Internal Audit investigations including frauds and consideration of recommendations for strengthening internal controls and Housing Benefit Enforcement activities.
- The annual review and re-affirmation of the authority's Counter Fraud, Bribery and Anti-Corruption Strategy to ensure on-going training and awareness of all staff regarding Counter Fraud and Anti-Corruption measures.
- A bi-annual report on the continued adequacy and effectiveness of, and management compliance with, the authority's Financial Rules and Contract Rules.
- Any issues within the remit of the Audit Committee referred to it by the **Head of the Paid Service**, the Section 151 Officer, Monitoring Officer or any Council body for determination.
- Treasury Strategy Reports including the Annual Investment Strategy and Minimum Revenue Provision Policy before submission to full Council.
- The mid-year Treasury Strategy Report and Annual Treasury Report before submission to full Council.

6.0 **Powers of the Audit Committee**

- 6.1 The Committee will have no delegated powers, but can require relevant officers to attend at any meeting where such attendance would be expedient to the work of the Committee.

7.0 **Audit Committee Competency Framework**

- 7.1 All Members of the Audit Committee should have, or acquire as soon as possible after appointment:-

- An understanding of the objectives and current significant issues facing the council.

- An understanding of the council's structure including key relationships with external partner organisations.
- An understanding of any relevant legislation or other rules governing the operation of the council.
- A broad understanding of the local government environment, in particular its accountability structures and current, major initiatives.

7.2 CIPFA recommends that the Audit Committee should corporately possess an appropriate level of knowledge/skills/experience in:-

- Finance.
- Risk management.
- Audit.
- Treasury management
- The authority's governance and regulatory frameworks.
- Understandings of the wider governance environment in which the council operates and the accountability structures within that environment and
- That the Committee should receive appropriate levels of training.

Reviewed and updated **7 December 2012**.