



Committee and Date

Item

Audit Committee

24 November 2016

9:30am

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 Committee's Terms of Reference are considered and approved as appropriate by members on an annual basis. The Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA): Audit Committees, Practical Guidance for Local Authorities and Police 2013 Edition.

### **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. They clarify the role of the Audit Committee and ensure 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 Part of the responsibility of this Committee is to review annually its Terms of Reference, making any recommendations for significant changes in them to Full Council.
- 5.2 CIPFA defines the purpose of an audit committee as being to provide those charged with governance an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. By doing this, the committee brings an important source of assurance to the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance matters.
- 5.3 The Audit Committee satisfies the wider requirement for sound financial management, as set out in the Accounts and Audit Regulations, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, Section 151 of the Local Government Act 1972 requires the authority, 'make arrangements for the proper administration of its financial affairs'. In discharging sound financial management, the Section 151 Officer requires an effective audit committee and an internal audit service which evaluates the effectiveness of its risk management, control and governance processes. Both elements are enshrined in the Public Sector Internal Audit Standards and the supporting Local Government Application Note.
- 5.4 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.
- 5.5 It is therefore important that the Terms of Reference are reviewed to ensure that best practice guidance is incorporated.
- 5.6 Proposed changes are shown in **bold and are underlined** in the attached **Appendix**. With the exception of a proposed insertion into Paragraph Two, the changes are minor mainly reflecting title changes.

5.7 Following the training session received by Members in October 2016, areas raised for specific consideration and potential inclusion in the Terms of Reference included:

- Ensuring that partnership working and alternative delivery models are reviewed by the Committee.

Do Members want anything specific in section 40, the work plan, or are they satisfied this will be covered under sections 8 to 16, core functions of the Committee and included in the detailed work plan considered at the February meeting?

- Consideration of independent members on the Audit Committee.

Would Members like to consider this further?

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2013 Edition  
TIS Online CIPFA Audit Committee  
Various consultation documents on the Future of Local Audit  
Public Sector Internal Audit Standards  
Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards, CIPFA 2013  
Local Government Act 1972  
Accounts and Audit (England) Regulations 2015

**Cabinet Member (Portfolio Holder)** Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

**Local Member** N/A

**Appendices** Audit Committee Terms of Reference

**AUDIT COMMITTEE TERMS OF REFERENCE**

**Membership**

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:
  - a) Five Members in accordance with the political balance rules being three Conservative, one Labour 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, Scrutiny Chairs or Vice Chairs.
  - b) The Section 151 Officer and the **Head of Audit** will normally attend every meeting. Should the Section 151 Officer feel there is 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. Other officers, **members** or agencies will be invited to attend as and when required.
3. There will be a standing invitation to the External Auditor to attend all meetings and they should attend the Audit Committee at least twice a year to report on the findings of the audit of the Council.

**Meetings**

4. 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.
5. The Head of the Paid Service, the Section 151 Officer, or the **Head of Audit** may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.
6. The Audit Committee, **Head of Audit** 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.
7. The Monitoring Officer is responsible for ensuring the Audit Committee is serviced with all necessary papers and support to enable it to fully discharge its responsibilities.

## **CORE FUNCTIONS**

### **Governance risk and control**

8. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
9. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
10. To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.
11. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
12. To monitor the effective development and operation of risk management in the Council.
13. To monitor progress in addressing risk-related issues reported to the committee. Seek assurances that action is taken by management in risk related issues identified by auditors and inspectors. Resolve any outstanding differences between internal and external auditors and management when action or major recommendations have not been agreed.
14. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
15. To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
16. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

### **Internal Audit**

17. To approve the Internal Audit Charter.
18. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
19. To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

20. To approve significant interim changes to the risk based internal audit plan and resource requirements.
21. To make appropriate enquiries of both management and the **Head of Audit** to determine if there are any inappropriate scope or resource limitations.
22. To consider reports from the **Head of Audit** on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include:
  - a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.
  - b) Reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement.
23. To consider the **Head of Audit's** annual report, specifically:
  - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
  - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
24. To consider summaries of specific internal audit reports as requested.
25. To receive reports outlining the action taken where the **Head of Audit** has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
26. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of Internal Audit that takes place at least once every five years.
27. To support the development of effective communication with the **Head of Audit**.

### **External Audit**

28. To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
29. To consider specific reports as agreed with the External Auditor and other inspection agencies.
30. To comment on the scope and depth of external audit work and to ensure it gives value for money.
31. To commission additional work from external audit as required.
32. To review and advise on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

### **Financial reporting**

33. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
34. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Treasury Management**

35. To consider the robustness of the authority's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
36. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity<sup>1</sup>.
37. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management

### **Accountability Arrangements**

38. To report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements.
39. To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms

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<sup>1</sup> Clause 3 Treasury Management Code of Practice

of Reference and the effectiveness of the Committee in meeting its purpose and functions.

### **Work plan**

40. 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:-
- a) An annual review of the Terms of Reference for the Audit Committee, making any recommendations for significant changes in them to Full Council.
  - b) Any proposals for the revision of the Internal Audit Charter.
  - c) The **Head of Audit's** Annual Report and opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
  - d) Regular performance reports on the work completed by Internal Audit and the progress made by directorates in implementing recommended actions.
  - e) Revisions to the annual audit plan as advised by the **Head of Audit** and agreed by the Section 151 Officer.
  - f) The authority's Statement of Accounts before submission to full Council.
  - g) A report on the review of the adequacy of the Council's corporate governance arrangements.
  - h) A report on the Internal Audit system and ongoing Quality Assurance and Improvement Programme.
  - i) A **report on the strategic risks of the Council and a** review of the adequacy of the Council's risk management arrangements.
  - j) The authority's Annual Governance Statement.
  - k) The External Auditor's work plan, including comments on the scope and depth of external audit work to ensure it gives value for money.
  - l) The External Auditor's Management Letter.
  - m) The Annual Governance Report from the External Auditor following completion of the annual audit of the Accounts.
  - n) Reports on any joint projects undertaken by Internal and External Audit.
  - o) Reports on Internal Audit investigations including frauds and consideration of recommendations for strengthening internal controls.



- p) 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.
- q) 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.
- r) Treasury Strategy Reports including the Annual Investment Strategy and Minimum Revenue Provision Policy before submission to Full Council.
- s) The mid-year Treasury Strategy Report and Annual Treasury Report before submission to Full Council.

### **Powers of the Audit Committee**

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

### **Audit Committee Competency Framework**

- 42. All Members of the Audit Committee should have, or acquire as soon as possible after appointment:-
  - a) An understanding of the objectives and current significant issues facing the council.
  - b) An understanding of the council's structure including key relationships with external partner organisations.
  - c) An understanding of any relevant legislation or other rules governing the operation of the council.
  - d) A broad understanding of the local government environment, in particular its accountability structures and current, major initiatives.
- 43. CIPFA recommends that the Audit Committee should corporately possess an appropriate level of knowledge/skills/experience in:-
  - a) The authority's governance and regulatory frameworks.
  - b) Understandings of the wider governance environment in which the council operates and the accountability structures within that environment.

- c) Financial management and accounting including accounting concepts and standards.
- d) Risk management.
- e) Audit.
- f) Counter fraud.
- g) Treasury management.

And that the Committee should receive appropriate levels of training.

Reviewed and updated **November 2016**.