

**ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE AND WORK PLAN
REPORT OF THE GROUP AUDITOR**

WEST MERCIA ENERGY JOINT COMMITTEE

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1. Summary

Effective audit committees bring many benefits to an organisation and to ensure that the WME continues to provide an effective Audit Committee, the Audit Committee's Terms of Reference should be considered and approved as appropriate by members on an annual basis. The Terms of Reference for West Mercia Supplies (WMS) were incorporated within the WMS Scheme of Delegation and review of these has identified that they do not reflect all of the responsibilities that were operated in practice by the Audit Committee. Changes to reflect actual performance, in alignment with recommended practice, are proposed in this report. The Terms of Reference are supported by a Work Plan which shows the timetable for reports to each of the three proposed Audit Committee meetings, to ensure that the Committee fulfils its responsibilities.

2. Recommendations

2.1 Recommendation to Audit Committee

Members are asked to consider and approve the proposed Audit Committee Terms of Reference and Work Plan with appropriate comment.

2.2 Recommendation to Joint Committee

Members are asked to adopt the proposed Audit Committee Terms of Reference for inclusion within the Scheme of delegation for WME with appropriate comment.

3. Background

- 3.1 The Terms of Reference for the Audit Committee are included within the Scheme of Delegation under the heading of 'Delegations from the Joint Committee'. The Scheme of Delegation is to be updated for WME and presented separately. Recommended practice states that 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 the Joint Committee for consideration.
- 3.2 Effective audit committees bring many benefits to the organisation. 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.

- 3.3 The proposed changes to the Terms of Reference to reflect operations and responsibilities are shown in the attached **Appendix A** together with the previous Terms of Reference which are proposed to be replaced. To assist the Audit Committee in fulfilling these responsibilities, the Work Plan attached at **Appendix B** schedules in the reports that the Committee would expect, as standing items, at each of their meetings.
- 3.4 A key requirement of an effective Audit Committee is a well-informed membership who has some knowledge and experience of the key areas to be considered by the Committee. With a known work plan **Appendix A**, Members are better prepared and can, if appropriate, seek further knowledge and experience needed to carry out their role effectively.
- 3.5 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.

List of Background Papers

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

Appendices

A: Audit Committee Terms of Reference
B: Audit Committee Work Plan

Appendix A

Proposed Version

15. Delegations from the Joint Committee

Delegation of authority from the Joint Committee to other committees is as follows:

i. **Audit Committee**

Terms of reference:

The Committee will review, at least annually, and more frequently, if changes are required sooner, its terms of reference to ensure they are up to date, and make recommendations for change to West Mercia Energy

The Committee will consider and approve its annual Work Plan

In order to carry out its purpose and core functions the Committee will consider, monitor, review and, as appropriate, approve:

- (a) Any proposals for the revision of the Service Level Agreements with Internal Audit.
- (b) The annual audit plan.
- (c) Revisions to the annual audit plan, as advised by the Audit Services Manager and agreed by the s151 Officer.
- (d) The Audit Service Manager's Annual Report and opinion on the work completed by Internal Audit and the progress made in implementing recommended actions.
- (e) Reports on Internal Audit reviews, special investigations, including frauds, and consideration of recommendations for strengthening internal controls.
- (f) A report on the review of adequacy of West Mercia Energy's corporate governance arrangements.
- (g) The annual review report on West Mercia's Code of Corporate Governance.
- (h) West Mercia's Annual Governance Statement.
- (i) Annual review and reaffirmation of West Mercia Energy's Anti-Fraud and Corruption Policy and Whistleblowing Policy.
- (j) The External Auditors work plan, including comments on the scope and depth of external audit work, considering whether it gives value for money.
- (k) External Audit reports for review, comment and follow up of recommendations.
- (l) West Mercia's draft Statement of Accounts before submission to the Joint Board.
- (m) The External Auditor's Management Letter and Value for Money Conclusion.
- (n) The Annual Governance report from the External Auditor following completion of the annual audit of accounts.

Previous Version

- (a) Receive the annual audit plans of both the internal and external auditors;
- (b) Receive and comment upon the internal and external auditors' reports;
- (c) Monitor the adequacy and effectiveness of Joint Committee's system of internal control;
- (d) Consider, monitor and review the effectiveness of Joint Committee's risk management arrangements;
- (e) Consider the degree to which, during the preceding financial year, the business and financial objectives of the business plan have been met.

APPENDIX B

WEST MERCIA ENERGY

Audit Committee Annual Work Plan	June	Sept	Feb/ Mar	Report originator	Public/ Exempt
Financial Results and Statutory Statement of Accounts	✓			S151 Officer	Public
Annual Governance Statement	✓			MD/ S151 Officer	Public
Annual Governance Statement and Statutory Statement of Accounts (prior year)		✓		MD/ S151 Officer	Public
Annual review and reaffirmation of West Mercia's Anti-Fraud and Corruption Policy and Whistleblowing Policy	✓			MD	Public
Annual Audit Committee Self-Assessment		✓		S151 Officer	Public
Annual Internal Audit Report	✓			Internal Audit	Public
Internal Audit Plan for the next year			✓	Internal Audit	Public
Internal Audit Strategic Plan (Four yearly) and SLA			✓	Internal Audit	Public
Internal Audit Coverage – final reports issued	✓	✓	✓	Internal Audit	Public
Annual review of Audit Committee Terms of Reference			✓	Internal Audit	Public
External Audit - Annual Governance Report		✓		External Audit	Public
External Audit - Annual Fee Letter			✓	External Audit	Public
External Audit - Annual Audit Letter			✓	External Audit	Public
External Audit – Audit Plan	✓			External Audit	Public
External Audit – updates against plan	✓		✓	External Audit	Public