



## AUDIT COMMITTEE

### Public

**Date of Meeting:** 21<sup>st</sup> August 2008

**Title:** Audit Committee - Terms of Reference and Timetable for Meetings

**Report of:** The Director of Corporate Services

**Report reference:** CORP 36/08

### Summary:

This report provides information regarding the Terms of Reference of the Audit Committee which was requested at the previous Audit Committee Meeting of the 15<sup>th</sup> April 2008.

### Recommendations:

1. Members may wish to consider whether the reports set out under 'Other issues' should be provided and if so when and by whom.
2. Members consider the capacity issue (ie the number of meetings required) in the light of the information set out in this report.

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## **AUDIT COMMITTEE - TERMS OF REFERENCE AND TIMETABLE FOR MEETINGS**

### **Current Position**

The Audit Committee's Terms of Reference - entitled "Rules of Governance" - were agreed by Council in 2006 and are incorporated into the Council's Constitution.

The Rules of Governance (updated to reflect current job-titles etc.) are attached to this report for Members' information as **Appendix A**.

At its first meeting in the Financial Year, the Audit Committee agrees a Programme of Work for the forthcoming year.

The Programme for 2008/09 was agreed by Members at the meeting on 15<sup>th</sup> April 2008 – report CORP14/08 refers.

A copy of the agreed Programme is attached to this report as **Appendix B**.

### **Proposed Changes to Programme**

At the meeting of the Audit Committee held on 23<sup>rd</sup> June 2008, it was agreed that the capacity of the current arrangements be reviewed. An additional meeting was agreed to take place on the 21<sup>st</sup> August to:

- To review the Rules of Governance referred to above
- To consider the workload to be undertaken by the Audit Committee over the forthcoming year;
- To agree whether additional meetings should be built into the Programme, and what matters should be considered at each meeting.

### **Source and Frequency of Reports**

Reports to the Audit Committee are received from a number of sources, at varying intervals.

#### **Audit Services**

Certain of the reports from the Head of Audit Services have a "fixed" deadline. These are for the Strategic and Annual Audit Plan, which require agreement as early as possible - i.e. the first meeting in the financial year - and the Annual out-turn report and review of the effectiveness of Audit Services, which need to be produced as soon as possible after the previous year-end.

Audit Services' Progress Reports and Summaries of key findings are currently presented at each meeting. Members will need to decide on the frequency of

these reports if a decision is taken to increase the number of meetings each year. Timing of these reports is therefore “optional”.

A progress Report relating to the Code of Corporate Governance Action Plan is currently presented to each meeting. Again, Members will need to decide on the frequency of these reports if a decision is taken to increase the number of meetings each year. Timing of these reports is also therefore “optional”.

### Risk Management

At present, Members receive a report at each meeting that gives the up-dated position relating to the Corporate Risk Register and the actions taken thereon.

As above, if the number of meetings is increased, Members will need to decide whether they also wish to receive this report more frequently.

### Financial Services

#### **The Review of the Final Accounts Timetable and notification of any changes to any accounting policies and practices – January/April**

This is scheduled to occur ahead of the Final Accounts process about to ensue. It is often accompanied by training in the process. Further training is provided ahead of the June Committee’s consideration of the Statement of Accounts so that any new Members are informed. This is annual and needed in April so that the clarification of the changes to the policies that will be used in the preparation of the Accounts are approved ahead of them being used.

#### **The Annual Statement of Accounts - June**

This is required annually and planned in June to enable the statutory date for approval by the Council, which is the 30 June, to be met.

### External Audit

#### **The Audit Commission’s Annual Audit and Inspection Letter and the Council’s response – April.**

This report provides an overall summary of the Audit Commission’s assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the finding and conclusions from the audit of the Council for the preceding year and from any inspections undertaken since the last Annual Audit and Inspection Letter.

This is annual and the deadline is fixed to April, which is the first Audit Committee meeting after the Audit Commission have produced their report.

#### **The Review of the Audit Commission’s Annual Audit and Inspection Plan – April/June**

Information is provided on the previous year’s plan and a report is provided on the existing year’s proposed Plan. These are produced annually and would be better planned for June as any changed Members would then be in place as well as the information for the previous year’s review being more realistically available by then.

### **The Audit Commission's report on the Statement of Accounts and the Director of Corporate Services response - September**

This report is annual and considered at the meeting in September to enable the statutory date for publication of the audited Statement of Accounts, which is the 30 September, to be met.

#### Other Issues for Consideration

The current Rules of Governance include the following requirements that need to be addressed when considering the Committee's workload for this year -

- The Chairman of the Audit Committee will present an Annual Report on the work of the Audit Committee to the full Council.
- Subject to complying with access to information rules, the Committee will at least annually meet in private with the external and internal auditors together and/or in private with the external auditor.
- The Committee will annually apprise the Executive on the effectiveness and value for money of the external audit service.

#### Recommendations

Members may wish to consider whether the reports set out under 'Other issues' should be provided and if so when and by whom.

Members consider the capacity issue (ie the number of meetings required) in the light of the information set out in this report.

Director of Corporate Services  
August 2008.

## **APPENDIX A**

### **AUDIT COMMITTEE**

#### **RULES OF GOVERNANCE**

##### **1. STATEMENT OF PURPOSE**

- 1.1 The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, 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 to oversee the financial reporting process.

##### **2. TERMS OF REFERENCE**

###### **2.1 Audit Activity**

To consider the Head of Audit Services' annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

To consider summaries of specific internal audit reports as requested.

To consider reports dealing with the management and performance of the providers of internal audit services.

To consider a report from internal audit on agreed recommendations not implemented within a reasonable time-scale.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To liaise with the Audit Commission over the appointment of the Council's external auditor.

To commission work from internal and external audit.

## **2.2 Regulatory Framework**

To maintain an overview of the Council's Constitution in respect of Contract Procedure Rules, Financial Procedure Rules and financial Codes of Conduct and Behaviour.

To review any issue referred to it by the Town Clerk and Chief Executive or a Director, or any Council body.

To monitor the effective development and operation of risk management and corporate governance in the Council.

To monitor the Council's policies relating to "Confidential Reporting", "Counter Fraud and Corruption" and "Complaints".

To oversee the production of the Council's Annual Governance Statement and to recommend its adoption.

To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

To consider the Council's compliance with its own and other published standards and controls.

## **2.3 Accounts**

To review the Annual Statement of Accounts and to make recommendations to Council in respect of the approval of the 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.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

## **3. ACCOUNTABILITY**

- 3.1 The Audit Committee will be a stand alone Committee of the Council. All Audit Committee members will act in the interests of the Council and not on behalf of any political party, constituency, ward, or interest group.
- 3.2 The Chairman of the Audit Committee will be appointed by the Committee. The Chairman and the Committee will ensure that relevant issues are promptly brought to the attention of the Executive, Overview and Scrutiny and Regulatory Committees or the full Council.

- 3.3 The Chairman of the Audit Committee will present an Annual Report on the work of the Audit Committee to the full Council.

#### **4. AUTHORITY AND ACCESS**

- 4.1 The Audit Committee has a right to request relevant information from appropriate Members and Officers of the Council.
- 4.2 The Audit Committee will not be able to transact the powers, functions and duties reserved to the full Council, the Executive, Overview and Scrutiny and other Regulatory Committees.
- 4.3 The Audit Committee will have access to in-house financial, legal and any other professional advice necessary to carry out its functions.
- 4.4 The Chairman of the Audit Committee and the external and internal auditor will meet as necessary and the Council's Head of Audit Services will provide necessary services and support and assistance to the Audit Committee.
- 4.5 Any Member, Officer or member of the public who has any concern covered by the Rules of Governance of the Audit Committee may raise the matter with the Chairman of the Committee who will obtain, if necessary, relevant advice from the Council's Monitoring Officer or the Section 151 Finance Officer before taking any action with regard to the same.

#### **5. MEMBERSHIP**

- 5.1 Audit Committee members will be appointed by the Council and consist of 7 members in accordance with the rules governing political balance. No member of the Executive and no chair of the Overview and Scrutiny Committees will be eligible to be a member of the Audit Committee.
- 5.2 The Audit Committee will be provided with administrative support by the Legal and Democratic Services Directorate and reports/decisions of the Audit Committee will be recorded and published on CMIS in the usual way. The People, Policy and Performance Directorate will provide technical support to the Committee when required. As the decisions of the Audit Committee will not be of an executive nature, the decisions will not be the subject of a request for call-in. If any Member is concerned about any decision of the Audit Committee, s/he should raise the matter with the Chairman of the Audit Committee, the Monitoring Officer, the Section 151 Finance Officer and/or ask an oral question of the Chairman of the Audit Committee at the Council meeting in accordance with the relevant Council Procedure Rules.

## **6. ATTENDANCE**

6.1 The Audit Committee shall meet on a regular basis as provided for in paragraph 7 below. Officers and others may attend all or part of the meeting at the invitation of the Committee. Attendees will usually include:

- The Leader or Deputy Leader
- The Portfolio Holder for Finance
- Town Clerk and Chief Executive
- Director of Corporate Services (Section 151 Finance Officer)
- Director of Legal and Democratic Services (Monitoring Officer)
- Head of Audit Services
- Other Directors and Managers, as required

6.2 Subject to the relevant meeting complying with the Access to Information paragraphs for the exclusion of members of the public, the Audit Committee will at least annually meet :

- (i) in private, with the external and internal auditors together; and/or
- (ii) in private, with the external auditor.

## **7. MEETINGS**

7.1 The Audit Committee will meet at least four times a year in accordance with the schedule of meetings agreed by the Council. The External Auditor or the Head of Audit Services may request a meeting if they consider it necessary and other special meetings may be called in accordance with the Council's Procedure Rules. Appendix A contains an outline Audit Committee timetable.

7.2 The members of the Audit Committee will commit to receiving appropriate training and development necessary to fulfil their roles.

## **8. QUORUM**

8.1 The quorum for any meeting will be one quarter of the elected members of the Committee, subject to there being not less than two elected members present at any time.



## **9. WORK PROFILE OF THE AUDIT COMMITTEE**

9.1 In furtherance of the Terms of Reference and not otherwise, the Audit Committee is likely to receive and advise upon the following areas of work :

- Whether there is an appropriate culture of risk management and related control throughout the Council;
- the annual Governance Statement;
- the annual Statement of Accounts, including changes in and compliance with accounting policies and practices, major judgemental areas and significant adjustments resulting from the audit;
- significant changes required to Financial Procedure Rules and the Contracts Procedure Rules.
- the framework and processes for risk assessment, analysis and management within the Council;
- the effective co-ordination between internal and external audit;
- the budget needed to resource effective internal and external audit and other responsibilities of the Audit Committee; and
- generally, on how the Audit Committee could add value to the work and operation of the Council.

9.2 External Audit and Inspection Agencies

- To note the fees and terms of engagement of the external auditor.
- To review the planned programme of work with the external auditor.
- To consider the annual statutory audit and to advise the Executive on any response to any audit management letters, reports and investigations, including Value for Money studies and other inspection reports.
- To review whether agreed external or internal audit or inspection recommendations have been implemented by the Executive as timetabled.
- To discuss with the external auditor any problems, reservations or issues arising from the interim or final audit or other investigations.
- To review the external auditor's independence and objectivity and annually appraise the Executive on the effectiveness and value for money of the external audit service.

9.3 Corporate Governance Framework

- To review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management.
- To give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

- To review the annual Governance Statement on Internal Control and make appropriate recommendations to the Council, the Executive, the Overview and Scrutiny and Regulatory Committees.
- To ensure that any significant weaknesses identified are remedied.
- To commission, if necessary, any relevant investigations into matters of particular concern relating to internal control.
- To ensure that the impact of any alleged or fraudulent activity on the Council's framework of internal control is reviewed and, where necessary, to recommend changes to strengthen the control framework.
- To receive reports relating to those aspects of whistle blowing or alleged or actual fraudulent activity which relate to the Terms of Reference of the Audit Committee.

#### 9.4 Internal Audit

To review and make recommendations to the Executive regarding :

- The effectiveness of internal audit;
- the internal audit function to ensure it is adequately resourced;
- the internal audit strategy, annual plan and to monitor delivery of the plan;
- any internal audit protocols and policies;
- significant audit findings, together with the response from managers to these reports;
- any difficulties encountered by internal audit including any restrictions on the scope of activities or access to required information;
- agreed internal audit recommendations to ensure they are implemented by management as timetabled; and
- the annual report from the Head of Audit Services.

#### 9.5 Other

To consider and make recommendations to the Executive on :

- the selection and terms of appointment of other appropriate advisors and consultants;
- governance issues relating to the operation of the Audit Committee, and
- the proportionality, independence, and appropriateness of any of the Council's policies relating to any audit or governance matters;
- such other matters of an audit, financial or governance nature as fall within the terms of reference of the Committee or as may be referred by the Council.

## APPENDIX B

### AUDIT COMMITTEE - DRAFT PROGRAMME OF WORK (2008/09)

Agenda Item / Issue	April 15	June 23	Sept 26	Jan 14/ 09
<b>Audit Activity:</b>				
Internal Audit Annual Plan	X			
Internal Audit progress reports and summary of key findings.	X	X	X	X
Internal Audit annual out-turn report		X		
Annual review of effectiveness of Internal Audit		X		
Audit Commission - Annual Audit & Inspection Letter & the Council response	X			
Review of Audit Commission's Annual Plan ( <b>date to be confirmed</b> )		X(?)		
Private discussions with Internal and External Audit – <b>as required</b> .				
<b>Accounts Activity:</b>				
Review of Final Accounts timetable and plans				X
Review of the annual accounting policies, SORP and Statement of Accounts	X			
Statement of Accounts (subject to Audit). <b>Statutory date for approval is 30 June</b>		X		
Audit Commission report on the Statement of Accounts and Director of Corporate Services response. <b>Statutory date for the publication of audited Statements is 30 September</b>			X	
<b>Regulatory Framework:</b>				
Action Plan arising from the Self Assessment of Audit Committees' effectiveness	X			

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

Annual Governance Statement Action Plan	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Use of Resources (Action Plan monitored by CROS)	<b>X</b>			
Risk Management Policy and progress	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Ad-hoc reports <b>as required</b> e.g: <ul style="list-style-type: none"> <li>• Significant amendments to the Financial Procedure Rules</li> <li>• Amendments to the Statutory Framework</li> </ul>				
Training / Briefing sessions Any further sessions to arise from consideration at this meeting and by Member Learning and Development Group.	<b>X</b>	<b>X</b>		