

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

AUDIT COMMITTEE STRUCTURE, TERMS OF REFERENCE AND FORWARD PLAN AND ASSURANCE MAP 2011/12

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To ask the committee to consider appointing a sub-committee to carry out its key functions and allocate appropriate terms of reference
- 1.2 To endorse the committees and/or sub-committee's Forward Plan and Assurance Map 2011/12 which was approved in April, 2011 (minute 204 refers)

2. BACKGROUND INFORMATION

- 2.1 In May 2006 the council's Audit Committee was established in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) document 'Audit Committees Practical Guidance for Local Authorities'. This recommended that local councils establish independent and dedicated audit committees, and it promoted best practice through suggested roles and terms of reference.
- 2.2 CIPFA continues to emphasise that audit committees are a key component of corporate governance and that they are an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.
- 2.3 Although the guidance is not mandatory it recommends best practice. This is recognised and applied by the council's external auditors the Audit Commission when challenging the council's internal control and governance arrangements. Best practice recommends that when considering the composition and effective structure of audit committees -
 - The audit committee chairman should not be a member of the executive
 - Members should receive appropriate training to fulfil their role.

- The size of committee is not prescribed. It is important to be large enough to carry out its functions but not too large to become unwieldy. (The council has previously operated with a committee of five members which complies with a suggestion of three or five) The committee needs to be politically balanced.
- Meetings should take place regularly - about four times a year.
- Clear reporting lines and appropriate access to council and other council groups and committees
- An effective audit committee needs to be independent from executive and scrutiny.

3. **OPTIONS FOR CONSIDERATION**

3.1 The committee is asked to consider the option of appointing a sub-committee to carry out its key functions in accordance with suggested CIPFA best practice and adopt terms of reference set out in appendix A of the report. The terms of reference continue the roles and responsibilities already included within the council's Constitution. It also provides the sub-committee with the opportunity to carry out the specific and detailed work contained within the Forward Plan and Assurance Map attached as appendix B, whilst providing a degree of flexibility to refer any matters of major significance to the Audit Committee as and when required.

A five member sub-committee (three Conservative and two Labour members) is recommended and could meet on the days already allocated to the committee in the council's timetable of meetings agreed at its annual meeting in May.

The Forward Plan and Assurance Map 2011/12 was approved by the committee at its meeting in April 2011 (minute 204 refers)

3.2 An Audit Sub-Committee should also provide its members with focussed and sufficient scope to obtain assurance on the adequacy of the council's internal control and governance arrangements to fulfil its terms of reference.

3.3 The committee may also wish to consider the option of carrying out all its roles and responsibilities at its current larger size of 17 members as approved at the annual meeting in May.

4. **RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

4.1 There are no additional resource implications

4.2 There are no staffing, property or IT implications.

5. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

5.1 The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

5.2 An evaluation and consideration of the structure and delivery of the role and responsibilities of the council's audit committee will enhance and help to promote good corporate governance.

6. OUTCOMES OF CONSULTATION

6.1 The suggested operational role and responsibilities for the Audit Committee and/or its sub-committee are the result of consideration of professional guidance and discussions between the Director of Finance and Director of Corporate and Community Services.

7. RECOMMENDATIONS

7.1 That the Audit Committee appoints a sub-committee, Audit Sub-Committee, comprising five members (three Conservative and two labour councillors of the Audit Committee, names to be notified) to carry out its key functions, and approves the terms of reference for the committee and sub-committee as set out in appendix A, and

7.2 That the committee endorses the Forward Plan and Assurance Map 2011/12 as set out in appendix B, previously agreed by the committee in April

DIRECTOR OF FINANCE AND DIRECTOR OF CORPORATE AND COMMUNITY SERVICES

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Background Papers used in the preparation of this report

CIPFA 'Audit Committees Practical Guidance for Local Authorities'

AUDIT COMMITTEE - TERMS OF REFERENCE

Delegated

Audit, Regulatory and Accounts Activities.

- (a) To consider matters of major significance referred by the Audit Sub-Committee as and when required.

Delegated

Audit Activity

- (a) To consider the head of internal audit's annual report and opinion, a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
- (b) To consider significant issues arising from internal audit reviews carried out and high risk agreed actions not implemented within a reasonable timescale.
- (c) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance. This includes reports dealing with the management and performance of the internal audit service.
- (d) To consider specific reports as agreed with the external auditor.
- (e) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (f) To liaise with the Audit Commission over the appointment of the council's external auditor.

Regulatory Framework

- (a) To maintain an overview of the council's constitution and governance arrangements in respect of contract procedure rules and financial regulations.
- (b) To monitor the effectiveness of the council's risk management arrangements. This includes:
 - monitoring and reviewing the Strategic Risk Management Group's facilitation role in maintaining and developing the risk management framework in accordance with best practice.
 - approval of the risk management strategy

- consideration of progress reports throughout the year.
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- (c) To monitor the council's anti-fraud and anti-corruption strategy (including the Whistle Blowers' Charter).
 - (d) To oversee the production of the council's Annual Governance Statement and adopt it alongside the council's accounts.
 - (e) To consider the council's arrangements for corporate governance and agreeing necessary action to ensure compliance with best practice.
 - (f) To consider the council's compliance with its own and other published standards and controls.
 - (g) To monitor the effectiveness of VFM arrangements throughout the council.
 - (h) To maintain an overview of the council's treasury management arrangements.

Accounts

- (a) To review and/or approve 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.
- (b) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Meetings and reports	Audit Committee Assurances					
	Effective Counter Fraud Arrangements	Strong Internal Control Environment & Financial Controls	Good Governance Arrangements	Accurate Financial Statements that meet Professional Standards	Significant risks to the council are adequately managed	Value for Money is Achieved
VFM Audit Brief - to provide details of external audit's work to assess the council's VFM arrangements	S	S	S	S	S	P
External Audit Progress Report and Briefing - an update on progress on external audit's statutory work as well as highlighting key emerging national issues and developments which may be of interest to Members	S	S	S	S	S	S
External Audit Recommendations Progress Report evaluates the adequacy of management's response to external audit recommendations and improving the council's control environment	S	S	S	S	S	S
Final Accounts and Accounting Policies – to seek approval on the accounting policies that the council will use to close the 2010/2011 accounts and consider the implications of the revised Accounts & Audit Regulations		S	S	P		
Sickness Update – to provide an update on the impact of measures identified to reduce the level of sickness across the council		S	S		S	S
June 2011 Internal Audit Effectiveness Report – provides an assessment of the effectiveness of Internal Audit's work as a major source of assurance. This includes compliance with professional standards and the adequacy of audit performance and coverage.	P	P	P	S	S	S

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	Effective Counter Fraud Arrangements	Strong Internal Control Environment & Financial Controls	Good Governance Arrangements	Accurate Financial Statements that meet Professional Standards	Significant risks to the council are adequately managed	Value for Money is Achieved
Internal Audit Annual Report –provides an opinion on the adequacy of the council's control environment and a summary of significant issues arising from Internal Audit's work to support the evaluation. Brief summaries are provided of all fundamental financial systems and key systems such as risk management and corporate governance.	P	P	P	S	S	S
Counter Fraud Report –proactive and reactive work undertaken by Internal Audit and Benefits Fraud Team in support of the council's Counter Fraud Strategy	P	S	S	S	S	S
Annual Governance Statement – presents a detailed evaluation of the adequacy of the council's governance arrangements and highlights any areas of significant governance weakness for approval by the Audit Committee.	P	P	P	P	P	P
Risk Management Progress Report – significant current or emerging risk management issues which could impact on the council's control environment	S	S	S	S	S	S
External Audit Progress Report and Briefing - an update on progress on external audit's statutory work as well as highlighting key emerging national issues and developments which may be of interest to Members	S	S	S	S	S	S
Data Quality Report - to provide updates on data quality reviews.		S	S		S	S

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<p>Treasury Management and Investment Strategy Annual Report 2010/2011 – to provide a summary of performance on the previous years Treasury Management activities including measures taken during the year in response to changing circumstances and additional measures planned for 2011/2012 to improve arrangements in light of professional and governmental advice available.</p>	S	P	S		P	S
<p>Sept 2011</p> <p>Internal Audit Progress report – audit plan progress, response to audit recommendations and significant issues arising from Internal Audit work which could impact on the council’s control environment</p> <p>Statement of Accounts presents the council’s audited accounts for approval and highlights key messages and outcomes.</p>		S	S	S	S	S
<p>Annual Governance Statement (update) – to reflect the outcome of the accounts audit</p>	P	P	P	P	P	P
<p>Risk Management Progress Report – significant current or emerging risk management issues which could impact on the council’s control environment</p>	S	S	S	S	S	S
<p>External Audit Recommendations Progress Report – evaluates the adequacy of management’s response to external audit recommendations and improving the council’s control environment</p>	S	S	S	S	S	S

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	Effective Counter Fraud Arrangements	Strong Internal Control Environment & Financial Controls	Good Governance Arrangements	Accurate Financial Statements that meet Professional Standards	Significant risks to the council are adequately managed	Value for Money is Achieved
Audit of Accounts – External Audit’s report to those charged with governance on significant issues arising from the audit of the council’s accounts. This includes an audit opinion on whether the accounts are ‘fairly stated’ and meet professional accounting requirements	S	S	S	P	S	S
Treasury Management quarterly progress report - to detail investments, interest and highlight salient issues as they arise	S	S	S	S	S	S
VFM Judgement - to report the Auditors Judgement for 2010/2011	S	S	S	S	S	P
Annual Governance Report – to report the Auditors findings on the financial statements audit and VFM work. This includes the audit opinion on the accounts and VFM judgement	S	S	S	P	S	P
January 2012 Internal Audit Progress report – audit plan progress, response to audit recommendations and significant issues arising from Internal Audit work which could impact on the council’s control environment. The report includes the review of Strategic Risk controls.		S	S	S	S	S
Data Quality Report - to provide updates on data quality reviews.		S	S		S	S

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	Effective Counter Fraud Arrangements	Strong Internal Control Environment & Financial Controls	Good Governance Arrangements	Accurate Financial Statements that meet Professional Standards	Significant risks to the council are adequately managed	Value for Money is Achieved
Risk Management Progress Report – significant current or emerging risk management issues which could impact on the council’s control environment	S	S	S	S	S	S
Counter Fraud Policies and Standards – to report on the outcome of a review of the Anti Fraud Theft and Corruption Strategy and evaluation of the council’s counter fraud arrangements against best practice	P	S	S	S	S	S
Treasury Management quarterly progress report - to detail investments, interest and highlight salient issues as they arise	S	S	S	S	S	S
Grant Claims 2010/11 – to report the outcome of external audit’s review on the council’s arrangements for claiming grants in 2010/11	S	S	S	S	S	S
External Audit Plan 2011/12- to provide details of external audit’s proposed work for the 2011/2012 audit	S	S	S	S	S	S
Annual Audit Letter- provides an overall summary of the Audit Commission’s assessment of the council, drawing on audit work throughout the year.	S	S	S	P	S	P

Culmination of assurances to support the approval of the Statement of Accounts and Annual Governance Statement