

Report of the: Director of Policy and
Resources

Agenda
Item No: 4
Meeting: 15 April 2014

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

AUDIT COMMITTEE TERMS OF REFERENCE, FORWARD PLAN AND ASSURANCE MAP 2014/15

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To consider new guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) – Audit Committees, Practical Guidance for Local Authorities and Police (2013 edition).
- 1.2. To approve the forward plan and assurance map of reports to be presented to the Audit Committee during 2014/15 and consider whether the assurances indicated in the plan provide adequate coverage to allow the Committee to fulfill its terms of reference.

2. BACKGROUND INFORMATION

- 2.1 Audit Committees are a key part of governance arrangements and can make a real difference to the way public services are run. They provide an independent, high-level resource supporting strong public financial management and governance.
- 2.2 With this in mind, CIPFA recently published updated guidance on Audit Committees in Local Government and Police Bodies. The publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and replaces the Position Statement on Audit Committees in Local Government issued in 2005. It includes a position statement on the role of audit committees in the sector which sets out what CIPFA considers to be good practice for audit committees. The position statement is attached in appendix A.
- 2.3 The publication emphasises the importance of audit committees being in place and recognises them as a key component of governance 'the primary purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes'. In this way

they have an important role to seek assurance about the council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. The guidance encourages authorities to explore how audit committees relate to the organisation's arrangements for managing and governing themselves.

2.4 The position statement sets out the core functions of an audit committee; frequency of meetings; expected regular attendees; and characteristics of 'good' audit committees, namely:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfill their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

2.5 Although CIPFA's guidance is new, many of the changes reflect issues already incorporated in the Audit Committee's Terms of Reference such as the introduction of the Annual Governance Statement and its associated governance responsibilities and various legislative requirements around Treasury Management. The new guidance also reflects developments since the original document, for example Public Sector Internal Audit Standards and recognises the significant changes affecting other areas of the public sector such as police following the Police Reform and Social Responsibility Act 2011. An important new section on effectiveness emphasises an evaluation of the impact of an audit committee rather than compliance with a checklist. For example, the audit committee can support improvement across a range of objectives such as good governance, arrangements to secure value for money and the operation of an ethical governance framework.

2.6 A forward plan of reports and map of assurances was first introduced in June 2009. The plan shows the assurance each report will provide to allow the Audit Committee to fulfill its terms of reference. In addition to categories of assurance provided the forward plan shows whether the source of assurance is primary or supporting. The forward plan has been refreshed for 2014/15 and minor changes have been made to reflect timing adjustments to some external audit reports.

2.7 Appendix B shows the categories and level of assurance the Audit Committee needs to fulfill its terms of reference and approve the council's

audited accounts and Annual Governance Statement. A forward plan of reports for the Audit Committee to consider is shown in Appendix C.

3. OPTIONS FOR CONSIDERATION

3.1 The Committee should consider whether the forward plan for 2014/15 provides sufficient scope to obtain assurance on the adequacy of the council's internal control and governance arrangements to fulfill its terms of reference. If it concludes that it does provide sufficient scope to obtain assurance the Committee is invited to approve the forward plan for 2014/15.

3.2 The Committee may decide not to approve the forward plan.

4. ANALYSIS OF OPTIONS

4.1 The forward plan is designed to provide Members with sufficient scope to gain adequate assurance to fulfill their role as set out in the Committee's terms of reference.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 There are no additional resource implications. However regular reviews of internal control and governance arrangements should safeguard the council's assets and help ensure that value for money is achieved in the use of resources.

6. OUTCOMES OF INTEGRATED IMPACTASSESSMENT (IF APPLICABLE)

6.1 An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 The forward plan for 2014/15 is the result of consideration of professional guidance and external audit's reporting requirements.

7.2 There are no conflicts of interests to declare.

8. RECOMMENDATIONS

8.1 That the Audit Committee notes CIPFA's guidance on audit committees.

8.2 That the Audit Committee considers whether the forward plan for 2014/15 provides sufficient scope to provide an appropriate level of assurance on

the adequacy of the council's internal control and governance arrangements.

8.3 That the Audit Committee approves the forward plan for 2014/15.

DIRECTOR OF POLICY AND RESOURCES

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Background Papers used in the preparation of this report:

Chartered Institute of Public Finance and Accountancy (CIPFA) – Audit Committees, Practical Guidance for Local Authorities and Police (2013 edition)

CIPFA's Position Statement: Audit Committees in Local Authorities and Police¹

- 1 **Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 **The purpose of an audit committee is to provide to those charged with governance² independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 **The core functions of an audit committee are to:**
 - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
 - In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.
 - Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
 - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
 - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.

1. The scope of this statement includes all local authorities in the UK and the audit committees for police and crime commissioners and chief constables.

2. In police bodies, *'those charged with governance'* are the police and crime commissioner and the chief constable.

- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

4 Audit committees can also support their authorities by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.³
- Providing oversight of other public reports, such as the annual report.

5 Although no single model of audit committee is prescribed, all should:

- Act as the principal non-executive, advisory function supporting those charged with governance.⁴
- In local authorities, be independent of both the executive and the scrutiny functions; in police bodies, be independent of the executive or operational responsibilities of the police and crime commissioner or chief constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.⁵
- Report regularly on their work, and at least annually report an assessment of their performance.

3. *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)*, CIPFA, 2011.

4. In police bodies, 'those charged with governance' are the police and crime commissioner and the chief constable.

5. While recognising the independence of the chief constable in relation to operational policing matters.

6 Good audit committees are characterised by:

- A membership that is balanced,⁶ objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.⁷
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

Additional guidance to support those acting as audit committee members in local authorities can be found in CIPFA's publication *Audit Committees: Practical Guidance for Local Authorities and Police* (2013), available from www.cipfa.org.uk/publications

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6. The political balance of a formal committee of an authority will reflect the political balance of the council. However, it is important to achieve the right mix of apolitical expertise.
 7. There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.
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AUDIT COMMITTEE – TERMS OF REFERENCE

The Audit Committee must receive sufficient assurance in the following areas to enable them to fulfil their terms of reference

Delegated Audit Activity

Assurances

- | | |
|---|---|
| <p>(a) To consider the head of internal audit's annual report and opinion, a summary of internal audit activity (actual and proposed), the level of assurance it can give over the council's corporate governance arrangements and the performance and effectiveness of the internal audit section.</p> | <p>Strong internal control environment & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. Accurate Financial Statements that meet Professional Standards. Significant risks are adequately managed. Value for Money is achieved.</p> |
| <p>(b) To consider significant issues arising from internal audit reviews carried out and high risk agreed actions not implemented within a reasonable timescale.</p> | <p>Strong internal control environment & financial controls. . Effective Counter Fraud arrangements. Good Governance arrangements. Accurate Financial Statements that meet Professional Standards. Significant risks are adequately managed. Value for Money is achieved.</p> |
| <p>(c) To consider the external auditor's annual letter, relevant reports, and the governance report. This includes reports dealing with the management and performance of the internal audit service.</p> | <p>Strong internal control environmental control & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. Accurate Financial Statements that meet Professional Standards. Significant risks are adequately managed. Value for Money is achieved.</p> |
| <p>(d) To consider specific reports as agreed with the external auditor.</p> | <p>Strong internal control environment & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. Accurate Financial Statements that meet Professional Standards. Significant risks are adequately managed. Value for Money is achieved</p> |
| <p>(e) To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> | <p>Strong internal control environment & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. Accurate Financial Statements that meet Professional Standards. Significant risks are adequately managed. Value for Money is achieved</p> |
| <p>(f) To liaise with the Audit Commission over the appointment of the council's external auditor.</p> | <p>Strong internal control environment & financial controls.</p> |

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 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.
- (c) To monitor the council's counter fraud strategy (including the Whistle Blowers' Charter).
- (d) To oversee the production of the council's Annual Governance Statement and approve it to accompany the council's accounts.
- (e) To consider the council's arrangements for corporate governance and agreeing necessary action to ensure compliance with best practice and approval of the Code of Corporate Governance
- (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

Assurance

- Strong internal control environment & financial controls.
Good governance arrangements.
Accurate financial statements that meet professional standards.
- Significant risks to the council are adequately managed.
- Effective counter fraud arrangements.
- Strong internal control environment & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. Accurate Financial Statements that meet Professional Standards. Significant risks are adequately managed. Value for Money is achieved.
- Good governance arrangements
- Strong internal control environment & financial controls. Good governance arrangements. Accurate financial statements that meet professional standards.
- Value for money is achieved.
- Strong internal control environment & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. . Significant risks are adequately managed. Value for Money is achieved.

Accounts

- (a) To review and/or approve the audited 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 governance report on issues arising from the audit of the accounts.

Assurance

Accurate financial statements that meet professional standards.

Strong internal control environment & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. Accurate Financial Statements that meet Professional Standards. Significant risks are adequately managed. Value for Money is achieved.

Audit Committee Forward Plan and Assurance Map 2014/15

Types of Assurance: P = Primary (provides an opinion on the adequacy of arrangements)

S = Supporting (describes work planned or in progress from internal sources or implied assurance from external audit/inspectorates)

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
April 2014						
Forward Plan of Reports and Assurance Map 2014/15 – refresh of forward plan and assurance map	P	P	P	P	P	P
Risk Management Strategy - the council's risk management arrangements including work schedule for the coming year and progress against previous year's work plan.	S	S	S	S	P	S
Internal Audit Plan – to approve Internal Audit's terms of reference, strategy and audit plan based on a risk based approach to audit planning and planned audit coverage of high risk systems for 2014/15	S	S	S	S	S	S
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, including an update on action taken to implement external audit recommendations		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

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
External Audit Reports – Audit Plan 2013/14 & Certification of Grants and Returns 2012/13, Progress report and Technical Update, Protecting the Public Purse fraud briefing	S	S	S	S	S	S
June 2014						
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
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

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
<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</p> <p>Information Governance Report - to provide updates on compliance with council policies and procedures.</p> <p>Sickness Update – to provide an update on the impact of measures identified to reduce the level of sickness across the council.</p>	S	S	S	S	S	S
<p>Treasury Management and Investment Strategy Annual Report 2013/14– 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 2014/2015 to improve arrangements in light of professional and governmental advice available.</p>	S	P	S		P	S
<p>External Audit Interim Report – to provide a summary key issues identified by External Audit. (If required)</p>	S	S	S	S	S	S
<p>Sept 2014</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>		S	S	S	S	S
<p>Audit of Accounts 2013/14 – Matters arising from the Audit External Audit's report to those charged with governance (ISA 260 report) on significant issues arising from the audit of the council's accounts and VFM work. This includes an audit opinion on whether the accounts are 'fairly stated' and meet professional accounting requirements and VFM judgement.</p>	S	S	S	P	S	P

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
<p>Annual Governance Statement (update) – to reflect the outcome of the accounts audit</p> <p>Statement of Accounts presents the council’s audited accounts for approval and highlights key messages and outcomes.</p> <p>Risk Management Progress Report – significant current or emerging risk management issues which could impact on the council’s control environment</p> <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> <p>Annual Audit Letter- provides an overall summary of the Audit Commission’s assessment of the council, drawing on audit work throughout the year.</p> <p>Treasury Management quarterly progress report - to detail investments, interest and highlight salient issues as they arise</p> <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</p>	P	P	P	P	P	P
				P		
	S	S	S	S	S	S
	S	S	S	S	S	S
	S	S	S	P	S	P
	S	S	S	S	S	S
	S	S	S	S	S	S
<p>January 2015</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. The report includes the review of Strategic Risk controls.</p>		S	S	S	S	S

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
Information Governance Report - to provide updates on compliance with council policies and procedures.		S	S		S	S
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
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
Protecting the Public Purse – key messages from the Audit Commissions annual report on fraud in the public sector	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
External Audit Plan 2014/15- to provide details of external audit’s proposed work for the 2014/2015 audit	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
Final Accounts and Accounting Policies – to seek approval on the accounting policies that the council will use to close the 2014/15 accounts and consider the implications of the revised Accounts & Audit Regulations		S	S	P		

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