

Report of the: Director of Policy and
Resources

Agenda
Item No: 4
Meeting: 14 April 2015

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

AUDIT COMMITTEE TERMS OF REFERENCE, FORWARD PLAN AND ASSURANCE MAP 2015/16

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To review the Committee's terms of reference.
- 1.2. To approve the forward plan and assurance map of reports to be presented to the Audit Committee during 2015/16 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 The Chartered Institute of Public Finance and Accountancy (CIPFA) publication – Audit Committees, Practical Guidance for Local Authorities and Police (2013 edition) sets out guidance on the function and operation of audit committees in local authorities. In April 2014 Members were informed of this publication which includes a position statement on the role of audit committees in the sector that sets out what CIPFA considers to be good practice for audit committees. The committee's terms of reference were updated to reflect this professional guidance and minor changes have been made to the terms of reference to reflect changes such as the introduction of the Public Sector Internal Audit Standards.
- 2.3 CIPFA's 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 publication's position statement (appendix A) 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.

Arrangements remain compliant with good practice and no changes are recommended.

2.5 Each year a forward plan of reports and map of assurances is presented for approval. 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 2015/16 and minor changes have been made to reflect report scheduling adjustments.

2.6 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 2015/16 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 2015/16.

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 2015/16 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 2015/16 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 2015/16.

DIRECTOR OF POLICY AND RESOURCES

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Date: 12 February 2015

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

Internal Audit

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, specifically:

(a) To approve the audit charter and annual audit plan; 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 (including compliance with Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme)

(b) To consider significant issues arising from internal audit reviews carried out and high risk agreed actions not implemented within a reasonable timescale.

External Audit

(a) 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.

Assurances

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.

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(b) To consider specific reports as agreed with the external auditor.

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

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

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

(d) To liaise with the Public Sector Audit Appointments Limited (PSAA), over the appointment of the council's external auditor.

Strong internal control environment & financial controls.

Governance and Internal Control

- (a) To maintain an overview of the council’s constitution and governance arrangements in respect of contract procedure rules and financial regulations.

- (b) 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. 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 review the assessment of fraud risks and monitor the council’s counter fraud strategy, actions and resources.

- (d) 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.

- (e) To consider the council’s arrangements for corporate governance and agreeing necessary action to ensure compliance with the good governance framework and approval of the Code of Corporate Governance

- (f) To consider the council’s compliance with its own and other published standards and controls.

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.

(g) To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements..

Value for money is achieved.

(h) Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice

Strong internal control environment & financial controls. Effective Counter Fraud arrangements. Good Governance arrangements. . Significant risks are adequately managed. Value for Money is achieved.

Financial Reporting

(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.

Accurate financial statements that meet professional standards.

(b) To consider the external auditor's governance report on issues arising from the audit of the accounts.

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.

Accountability arrangements

(a) To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.

(b) To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

| 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 2014/15 & Certification of Grants and Returns 2013/14, Progress Report and Technical Update. | S | S | S | S | S | S |
| June 2015 | | | | | | |
| 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 Technical Update - 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>Data Quality -annual report on data quality reviews</p> | S | S | S | S | S | S |
| <p>Treasury Management and Investment Strategy Annual Report 2014/15– 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 2015/2016 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> <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>Sept 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</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 |
| Audit of Accounts 2014/15 – 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. | S | S | S | P | S | P |
| Annual Governance Statement (update) – to reflect the outcome of the accounts audit | P | P | P | P | P | P |
| Statement of Accounts presents the council’s audited accounts for approval and highlights key messages and outcomes. | | | | 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 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 |
| Treasury Management quarterly progress report - to detail investments, interest and highlight salient issues as they arise | S | S | S | S | S | S |
| External Audit Progress Report and Technical Update - 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 |

| 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 |
| January 2016 | | | | | | |
| 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 |
| 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 Progress Report and Technical Update - 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 |

| Meetings and reports | Audit Committee Assurances | | | | | |
|--|--------------------------------------|--|------------------------------|--|---|-----------------------------|
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| <p>Final Accounts and Accounting Policies – to seek approval on the accounting policies that the council will use to close the 2015/16 accounts.</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> | | S | S | P | | |
| | S | S | S | P | S | P |

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