

AUDIT COMMITTEE - 28 April 2017

Title of paper:		AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME	
Director(s)/ Corporate Director(s):		Geoff Walker Director of Strategic Finance	Wards affected:
Report author(s) and contact details:		Shail Shah - Head of Audit and Risk ☎ 0115-8764245 ✉ shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:			
Recommendation(s):			
1	Note the role and functions of the Audit Committee including the additional elements prescribed by the Public Sector Internal Audit Standards (PSIAS) and the benefits arising from its existence		
2	Endorse the outline work programme at Appendix 1 including the Assurance Plan and the terms of reference at Appendices 2 and 3 .		

1 REASONS FOR RECOMMENDATIONS

Although an Audit Committee is not a legal requirement it is necessary for a sound management and has a role in satisfying section 151 of the Local Government Act 1972 which requires every local authority to 'make arrangements for the proper administration of its financial affairs', and the Accounts & Audit Regulations 2015 which require that the authority ensures that it has a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

An Audit Committee also reinforces the importance of probity, and performance and risk management. This report outlines the core functions of the Audit Committee, the benefits that will arise for the City Council and an outline annual work programme.

1.1 Role of the Audit Committee

The overarching purpose of an Audit Committee is to provide independent assurance on the adequacy and integrity of the governance and control environment, the Risk Management Framework, and the annual financial reporting process. As part of this role the proposed work programme this year includes agreeing the council's Assurance Framework.

1.2 Benefits of the Audit Committee

The benefits to be gained from operating an effective Audit Committee are that it:

- Raises greater awareness of the need for effective internal control and the implementation of audit recommendations;

- Increases public confidence in the objectivity and fairness of financial and other reporting;
- Reinforces the importance and independence of internal and external audit and any other similar review process, for example by providing a view on the annual governance statement;
- Provides additional assurance through a process of independent and objective review.

1.3 **Constitutional Role**

The Audit Committee aims to improve corporate focus on governance by:

- Providing assurance on the adequacy of the Risk Management Framework and the associated control environment;
- Scrutinising 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;
- Overseeing the financial reporting process
- Approving the Council's Statement of Accounts;
- Commenting on the scope and nature of external audit;
- Overseeing proposed and actual changes to the Council's policies and procedures pertaining to governance

1.4 **Functions of the Committee**

The Audit Committee fulfils the following functions

- functions listed in Appendix 2 under delegations from Executive Board as noted in the Constitution – Responsibilities for Functions and Terms of Reference
- functions listed in Appendix 3 under PSIAS as a consequence of the Accounts and Audit Regulations 2015.

2 **BACKGROUND**

- 2.1 An Audit Committee is central to the provision of effective corporate governance, which partly depends on a systematic strategy, clear framework and processes for managing risk. Good governance also helps to deliver improved services and maintains and increases public confidence in the objectivity and fairness of financial and other reporting. It is important that local authorities have independent assurance about the mechanisms underpinning governance.
- 2.2 It is recognised that high performing councils develop effective financial and non-financial control mechanisms. The development of expertise made available by the establishment of an Audit Committee, meeting on a regular cycle, and with Terms of Reference focussed on the key audit, control and risk management areas critical to the Council's performance is a key part of these mechanisms.
- 2.3 The Committee's outline work programme is attached as Appendix 1. The work programme supports the Council's aim to improve its efficiency and effectiveness. It has been developed to address
- the Terms of Reference for the Committee approved by the City Council which are included within Appendix 2 and
 - the requirements of PSIAS which are shown in Appendix 3.

- 2.4 In accordance with CIPFA guidance, the Committee is politically balanced and will not have Executive membership. Membership will continue to be reviewed in accordance with guidance from the Department of Communities & Local Government (DCLG).

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Advice note from CIPFA Technical Audit Committees – Practical Guidance for Local Authorities (CIPFA)

Appendix 1

Audit Committee Programme of work 2017 / 2018

REPORT TITLE	Provisional DATE LEAD	28/04/17	05/17	07/17	09/17	11/17	02/18
Annual Governance Statement Interim Report	GW/SS						
Annual Governance Statement	GW/SS						
Internal Audit Plan	GW/SS						
Annual Governance Statement Mid-Year Update	GW/SS						
Assurance Framework	GW/SS						
Audit Committee Annual Report	Cllr P						
Audit Committee Role & Annual Work Programme	GW/SS						
Audit Committee Training Activity	GW/SS						
Counter Fraud Strategy	GW/SS						
EMSS Update	GW/SS						
Internal Audit Annual Report & Audit Charter	GW/SS						
Internal Audit Performance	GW/SS						
Internal Audit Reports Selected for Examination	GW/SS						
Performance Management Framework	AP/CC						
KPMG – Annual Audit Letter	KPMG						
KPMG – Certification of Claims & Returns Annual Report	KPMG						
KPMG – Report to Those Charged with Governance	KPMG						
KPMG – Regular update/statement progress	KPMG						
KPMG – External Audit Plan	KPMG						
LGO Annual Report	AW						
Partnership Governance Framework	EF						
Risk Management Annual Report	GW/JO						
Risk Management Quarterly Report	GW/JO						
Risk Management Strategy/Framework	GW/JO						
Risk Management Training	GW/JO						
Statements of Accounts	GW/TC						
Treasury Management Annual Report	GW/GD						
Treasury Management Strategy & Key Issues Update	GW/GD						
Information Governance Reports	IG						

KEY : PEOPLE

Cllr Councillor Piper
P

AW Amanda Wright

CC Chris Common

EF Elaine Fox

GD Glyn Daykin

GW Geoff Walker

IG Simon Salmon /
Mick Dunn

JO Jane O'Leary

KP External Auditor

MG

SS Shail Shah

TC Theresa
Channell

KEY : PURPOSE

As required

For approval

Reviewing
performance

Audit Committee Terms of Reference

TITLE	AUDIT COMMITTEE
POWERS / REMIT	
<p>(a) Main Purposes:</p> <ol style="list-style-type: none"> 1. Provide assurance of the adequacy of the risk management framework and the associated control environment; 2. Scrutinise 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; 3. Oversee the financial reporting process; 4. Approve the Council's Statement of Accounts; 5. Comment on the scope and nature of external audit; 6. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance. <p>(B) Main Functions:</p> <ol style="list-style-type: none"> 1. Reviewing the mechanisms for the assessment and management of risk; 2. Approving the council's statement of accounts; 3. Receiving the council's reports on the Statement on the Annual Governance Statement and recommending their adoption; 4. Approving Internal Audit's strategy, planning and monitoring performance; 5. Receiving the Annual Report and other reports on the work of Internal Audit; 6. Considering the external auditor's annual letter, relevant reports and the report to those charged with governance and the council's responses to them; 7. Considering arrangements for and the merits of operating quality assurance and performance management processes; 8. Considering the exercise of officers' statutory responsibilities and of functions delegated to officers; 9. To recommend external audit arrangements for the council; 10. To receive and consider the results of reports from external inspectors, ombudsman and similar bodies and from statutory officers; 11. Overseeing the Partnership Governance Framework, including annual health checks and the Register of Significant Partnerships. 	
ACCOUNTABLE TO: Council	
MEETINGS: Normally six per annum plus specials where required	
MEMBERSHIP: 9 non-executive members (politically balanced) plus 1 independent member.	
ESTABLISHED SUB COMMITTEES: None.	

TABLE 2: DUTIES OF THE BOARD (AUDIT COMMITTEE) MANDATED BY PSIAS		
PSIAS ref	Duty of the Board	Compliance or Explanation
1000	Approve the Internal Audit charter	Comply
1110	Approve the risk based Internal Audit plan, the Internal Audit budget and resource plan including any significant* changes	Comply (budget and resources to be approved by S151 officer)
1110	Approve decisions relating to the appointment and removal of the Chief Audit Executive	This role is fulfilled by S151 officer but NCC recruitment process allows the Chair to be a stakeholder representative on recruitment panel. The Chair would also be consulted on any decision to remove the CAE.
1110	Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity	Comply
1110	Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations	Comply
1110	The chair to provide feedback for the Chief Audit Executive's performance appraisal	Comply
1130	Approve significant* additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted	Comply
1320	Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive	Comply
2020 & 2030	Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters	Comply
2060	Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Comply

*Significant is taken to mean 5% of the audit plan in days.