

meeting **NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM
FIRE & RESCUE AUTHORITY**

FINANCE AND RESOURCES COMMITTEE

date **15 September 2006**

agenda item number

REPORT OF THE CHIEF FIRE OFFICER

COMMITTEE ROLE AS AN AUDIT COMMITTEE AND TERMS OF REFERENCE

1. PURPOSE OF REPORT

To set out for Members the responsibilities that this Committee undertakes when it is acting as the Authority's Audit Committee and to seek Members approval to the terms of reference.

2. BACKGROUND

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to Local Authorities in late 2005 relating to the formation of audit committees. Audit Committees are not compulsory in Local Government although they are seen as a key component of corporate governance and the work of the Audit Committee is one of those areas which will be examined during the Comprehensive Performance Assessment of the Authority in the Autumn.
- 2.2 Referring to local authorities in general CIPFA, have stated that the Audit Committee must be independent of both Executive and Scrutiny functions, however, on their website CIPFA say that this is an ideal position and that it is the effectiveness of the Audit Committee that is important rather than particular arrangements.
- 2.3 In an Authority the size of Nottinghamshire and City of Nottingham Fire and Rescue Authority it is difficult to secure such levels of independence and therefore the Finance and Resources Committee are charged with acting as the Audit Committee.
- 2.4 This report sets out the responsibilities of an audit committee in general and recommends the adoption of particular Terms of Reference.

3. PURPOSE AND FUNCTIONS OF THE AUDIT COMMITTEE

- 3.1 CIPFA's guidance states that audit committees are a key component in the overall corporate governance process, and are:
 - § essential to the provision of effective corporate governance;
 - § not just the concern of auditors;
 - § relevant to the governance, financial reporting and financial performance of the whole authority.

- 3.2 The scope of the audit committee should be sufficient to provide challenge across all committees of the Authority.
- 3.3 The purpose of an audit committee is to:-
- § provide independent assurance of the adequacy of the risk management framework and the associated control environment;
 - § provide independent scrutiny of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment;
 - § oversee the financial reporting process.
- 3.4 The benefits of an effective audit committee are that it:-
- § raises greater awareness of the need for 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 processes, e.g. providing a view on the Statement on Internal Control;
 - § provides additional assurance through a process of independent and objective review.
- 3.5 The core functions of an audit committee are to:-
- § consider the effectiveness of risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
 - § seek assurances that action is being taken on risk-related issues identified by auditors and inspectors;
 - § be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
 - § approve (but not direct) internal audit's strategy, plan and monitor performance;
 - § review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
 - § receive the annual report of the Head of Internal Audit;
 - § consider the reports of external audit and inspection agencies;
 - § ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

- § 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.
- 3.6 Good audit committees will be characterised by:-
- § a strong chair – displaying a depth of skills and interest;
 - § unbiased attitudes – treating auditors, the executive and management equally;
 - § the ability to challenge the executive when required;
 - § a membership that is balanced, objective, independent of mind, and knowledgeable.
- 3.7 An audit committee should report directly to the board, i.e. Fire & Rescue Authority, therefore making it independent from any executive or scrutiny functions. This provides status, independence and clarity. The support and interest of the Chief Fire Officer and Chair is essential.
- 3.8 No single model of audit committee is prescribed. However, all should:-
- § be independent of the executive and scrutiny functions;
 - § have clear reporting lines and rights of access to other committees/functions, e.g. scrutiny and service committees, corporate risk management boards and other strategic groups;
 - § meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public;
 - § meet privately and separately with the external auditor and Internal Audit Manager;
 - § include, as regular attendees, the Chief Finance Officer, Internal Audit Manager and appointed external auditor and relationship manager. Other attendees may include the Monitoring Officer (for standards issues) and the Chief Fire Officer. These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers of the Authority as required;
 - § be properly trained to fulfil their role.
- 3.9 Both the Head of Finance & Resources and the Treasurer will have an important relationship with the committee, and should be a key point of contact for audit committee members.

4. PRACTICAL APPLICATION IN NOTTINGHAMSHIRE

- 4.1 The Finance & Resources Committee will act as the Audit Committee and in doing so will have reporting rights directly to the full Fire & Rescue Authority.
- 4.2 A specific item on the agenda will set aside for the consideration of Audit matters.

4.3 The Committee when acting as the Audit Committee shall operate within the terms of reference set out as Appendix A to this report.

5. RISK MANAGEMENT IMPLICATIONS

An Audit Committee provides a useful component within the risk management framework, having, as it does, powers to investigate any matter, direct access to both internal and external auditors and the ability to meet privately with officers.

6. PERSONNEL IMPLICATIONS

There are no implications for personnel within this report.

7. EQUALITY IMPACT ASSESSMENT

There are no issues for equalities within this paper.

8 FINANCIAL IMPLICATIONS

There are no specific implications for finance arising from this paper beyond those a corporate level as set out in the report.

9. RECOMMENDATIONS

9.1 That Members note the contents of this report.

9.2 That Members recommend that Policy and Strategy Committee approve the Terms of Reference for the Audit Committee.

10. BACKGROUND PAPERS FOR INSPECTION

None.

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SUGGESTED AUDIT COMMITTEE TERMS OF REFERENCE:

1. To consider the Internal Audit Managers annual report and opinion, a summary of internal audit activity (actual and proposed) and the level of assurance it can give with regard to the Authority's corporate governance arrangements.
2. To consider all Internal Audit Reports.
3. To consider any reports dealing with the management and performance of the providers of the Internal Audit Services.
4. To consider any report issued by the Internal Auditors on any agreed audit recommendations which have not been implemented within a reasonable timescale.
5. To consider the External Auditor's annual audit and inspection letter, relevant reports, and the report to those charged with governance.
6. To consider specific reports as agreed with the external auditor.
9. To comment on the scope and depth of external audit work and to ensure it gives value for money.
10. To liaise with the Audit Commission over the appointment of the Authority's External Auditor.
11. To review any issue referred to it by the Chief Fire Officer, or any Committee of the Authority.
12. To oversee the production of the authority's statement on Internal Control and to recommend its adoption.
13. To consider the Authority's compliance with its own and other published standards and controls.
14. To review the annual statement of accounts.
15. To consider the external auditor's report to those charged with governance on issues arising from the audit of accounts.