

## **POLITICAL MANAGEMENT ARRANGEMENTS**

### **BRIEFING PAPER – AUDIT COMMITTEE**

Following the Political Management Working Groups meeting held on 15 February 2006, the Assistant Chief Executive and Scrutiny Support Manager were charged with clarifying the role and functions of an Audit Committee independent of the Executive and Scrutiny functions.

This paper looks at some of the issues surrounding the above.

#### **AUDIT COMMITTEE**

The Political Management Working Party agreed “in principle to the establishment of an Audit Committee independent of the Executive and Scrutiny functions, subject to clarification being obtained from the Monitoring Officer regarding the optimum size and role of the Audit Committee and the implications for Councillors appointed to the Audit Committee in respect of their ability to sit on other Committees of the Council.

It also agreed “that in the event of an Audit Committee being established in accordance with the above, the Audit Scrutiny Committee be disestablished.”

Advice was sought from the Monitoring Officer who has indicated that

- It would be inappropriate for anyone involved in Executive or Scrutiny to be a member.
- It would therefore be preferable to constitute the Committee from members who were unlikely to have to withdraw with any regularity due to positions held elsewhere in the Council i.e. East Durham Homes, the Local Strategic Partnership, the Community Safety Partnership or Neighbourhood Pathfinder Boards
- Members of Audit committee would not be debarred from participating in the functions of the Council or any of its Regulatory Committees

When further clarification was sought on the issue of Audit Committee members holding other positions on behalf of the Council with external organisations and the implications thereof, the Monitoring Officer has advised that the Council already has in place robust mechanisms for ensuring that conflicts of interest are declared, recorded and the members’ positions are not compromised in any way.

There appears to be no legislative reason why CIPFA have recommended an Audit Committee comprising 3-5 members. CIPFA have been asked to clarify whether the 3-5 member reference was prescriptive. We have been informed by CIPFA that the reference was placed in the guidance as being a recommendation from HM Treasury and is not prescriptive.

The advice from the Council’s Monitoring Officer suggests that an Audit Committee of such a size may be unmanageable if regular attendance of members could not be guaranteed. A larger Audit Committee comprising 10 members has been discussed by the Political Management group and consulted upon. The advice from the Monitoring Officer has indicated that such a Committee would be acceptable.

The Committee should be subject to the rules of Political Balance.

Draft Terms of Reference for an independent Audit Committee have been prepared and consultation undertaken with the Director of Finance and Corporate Services as Section 151 officer, the Monitoring Officer and the Head of the Council's Internal Audit Service. They follow the CIPFA Guidance issued in respect of Audit Committees in November 2005. A copy of these are attached as Appendix A.

#### WHAT WILL AN AUDIT COMMITTEE DO AT EASINGTON ?

The Audit Committee exists to provide effective assurances that the Council's financial management and reporting mechanisms are adequate. Its role is to enhance the Public's trust and confidence in the financial governance of the Council.

The Audit Committee will provide independent assurances to Councillors and the public, scrutinise financial management and reporting and provide a challenge across the Council

The Audit Committee will receive regular reports from the Council's Internal Audit Manager detailing the results of ongoing investigations and will assess the effectiveness of improvement actions put in place. This work will normally be identified within the Internal Audit sections Annual Audit Plan, with the Committee being responsible for ensuring that the resources allocated to such investigations and other Audit/ Governance work is adequate and will deliver the required results.

It is also imperative that the effectiveness of the Council's Internal Audit section is performance managed. This will be carried out by way of Customer feedback reports and performance analysis from those service areas that have been audited.

The Audit Committee will be the key body for receiving the Council's External Auditor's work plans and the responsible body for ensuring that the Council receives value for money for the fees paid. The Committee will also receive reports of incidents of fraud with or investigated by the Council.

The Audit Committee will be required to continuously review the Council's Audit Procedure rules, Contract procedure rules and financial regulations particularly in the light of the recently adopted Corporate Procurement Strategy.

Regular reports will be submitted to the Audit Committee in respect of the Council's Risk Management arrangements and its members will be required to consider the strategic risks faced by the Council as identified and will ensure that the controls put in place to address these risks are effective.

The Audit Committee will be the lead body in continuously monitoring and reviewing the Council's key Corporate Governance arrangements including the effectiveness of the Anti fraud and corruption policies and whistleblowing.

In approving the Council's Statement of Internal Control and thereafter receiving regular reports thereon, the Audit Committee will ensure that the Council's internal control mechanisms are effective.

The Audit Committee will review the Council's Annual Statement of Accounts and consider any external Audit reports arising therefrom.

The Audit Committee will receive the Audit Commissions Annual Audit and Inspection letter, including the Council's Direction of Travel assessment and assess those against regular reports on high level performance within the Council. Where high level corporate performance reports identify areas of poor or failing performance, the Audit

## APPENDIX 1

Committee will be responsible for ensuring that an appropriately project managed recovery plan is established to improve performance and to receive regular reports on the effectiveness of the recovery plans.

APPENDIX A

AUDIT COMMITTEE

TERMS OF REFERENCE

The District Council of Easington has/will establish(ed) an Audit Committee to support it in providing:-

- (i) independent assurance of the adequacy of the Council's risk management framework and the associated control environment
- (ii) independent scrutiny of 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
- (iii) an overview in respect of the Council's financial reporting process.

MEMBERSHIP

- 1. The membership of the Audit Committee shall consist of 10 Councillors and will be politically balanced.
- 2. The Audit Committee Members shall not sit on the Executive or any of the Council's Scrutiny Committees.
- 3. The Audit Committee Members will undertake rigorous training to provide them with the appropriate skills to enable them to serve on the Committee.

QUORUMS

- 1. The quorum for the meeting shall be at least three members of the Audit Committee including the Chair or Vice Chair.

VOTING

- 1. All Councillors on the Audit Committee shall have full voting rights. In the event of an equality of votes, the Chair of the Committee will have a second or casting vote. Where the Chair is not in attendance, the Vice-Chair will take the casting vote.

MEETINGS

- 1. The Audit Committee will meet monthly. The Chair of the Committee may convene additional meetings as necessary.
- 2. Audit Committee will normally be attended by the Director of Finance and Corporate Services and the Audit Manager. Other officers of the Council may be required to attend for all or part of the meeting, at the request of the Chairman.
- 3. The Council's external Auditors will attend at least one meeting each year and external audit will have right of access to the Chair at any time. The Audit Committee will have the right to meet in private with the external Auditor and

the Audit Commission's Relationship Manager at least once a year if it wishes.

4. On an annual basis, External Audit will present the Audit Plan, the ISA240 and the Annual Audit and Inspection Letter to Committee.

#### TERMS OF REFERENCE

The Terms of Reference and the effectiveness of the Audit Committee will be reviewed on an annual basis.

The Audit Committee shall report annually to the Council.

To exercise the following functions:

#### AUDIT ACTIVITY

1. To review, comment on and approve (but not direct) internal audit's strategy, plans and resources.
2. To receive internal audit progress reports on a quarterly basis summarising the audit reports issued and performance of the Internal Audit Function.
3. To receive the Internal Audit Manager's annual report and opinion and the level of assurance given over the Council's corporate governance arrangements.
4. To consider reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame.
5. To consider the external Auditor's Annual Plan, relevant reports and reports to those charged with governance. To review and comment on external inspection reports.
6. To consider specific reports as agreed with the external Auditor.
7. To discuss and comment on the assessment of risks identified by External Audit and the associated impact on the audit fee, audit risk assessment and the scope and depth of external audit work and to ensure it provides value for money.
8. To liaise with the Audit Commission over the appointment of the Council's external Auditor.
9. To commission work from Internal and External Audit.
10. To receive reports on internal and external fraud investigated by the Council.

#### REGULATORY AND CONTROL FRAMEWORK

11. To maintain an overview of the Council's constitution in respect of audit procedure rules, contract procedure rules and financial regulations.
12. To review any issue referred to it by the Chief Executive, Management Team, the Monitoring Officer or any Council body.

13. To monitor the effective development and operation of risk management within the Council including:-
  - the establishment of risk management across the Council, including partnerships
  - awareness of the Council's corporate risk appetite and tolerance
  - reviewing the Council's Corporate Risk register including being appraised of the Council's most significant risks and whether management's responses to risk and changes in risk are appropriate
14. To monitor Council's policies in respect of 'Raising Concerns at Work' (Whistleblowing) and the anti-fraud and corruption strategy.
15. To oversee the production of the Council's Statement of Internal Control and supporting documentation.
16. To assure the Council that effective Corporate Governance arrangements are in place.

#### ACCOUNTS

17. To review the Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
18. To consider the external Auditor's report to those charged with governance on issues arising from the audit of accounts.
19. To consider the Audit Commission's Annual Audit and Inspection Letter, including the Council's Direction of Travel Assessment and subsequent follow up reports on high level corporate performance.