



Report of Audit Committee

John Hewitt, Corporate Director of Resources

Electoral division(s) affected:

None

Purpose of the Report

- 1 Following its meeting on 31 May 2019 the Audit Committee requested changes to the constitution with regard to the its own terms of reference to reflect the Chartered Institute of Public Finance (CIPFA) Publication – Audit Committees: Practical Guidance for Local Authorities and Police 2018.

Executive Summary

- 2 The CIPFA Publication – Practical Guidance for Local Authorities and Police 2018 Edition sets out its guidance on the function and operation of Audit Committees in local authorities and police bodies. The Guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK and for police Audit Committees in England and Wales.
- 3 Audit Committees are a key component of an authority's governance framework and provide an independent and high-level resource to support governance and strong public financial management.
- 4 The guidance covers:
 - The Core Functions of an Audit Committee
 - Possible Wider Functions of an Audit Committee
 - Independence and Accountability
 - Membership and Effectiveness
- 5 The changes to the Audit Committee's Terms of Reference complement the new statutory guidance on Overview and Scrutiny in Local and

Combined Authorities where it is required there is a clear division of responsibilities between the scrutiny function and the audit function. These enhanced and descriptive Terms of Reference ensure the division is easily identified.

Recommendation(s)

- 6 County Council is recommended to:
 - (a) Agree the changes to the Committee's Terms of Reference incorporating CIPFA's model Terms of Reference defined in the Practical Guidance for Local Authorities 2018 set out at Appendix 3;
 - (b) Adopt the amended Terms of Reference and delegate authority to the Head of Legal and Democratic Services to make the consequent amendments to the Constitution.

Background

- 7 The terms of reference for the Audit Committee are set out at Article 4C of the Constitution (attached at Appendix 2). The Committee has reviewed its arrangements against previous iterations of CIPFA Audit Committee Guidance, with the most recent assessment taking place in 2013 (at the last release of CIPFA guidance).
- 8 On 31 May 2019 the Audit Committee reviewed its arrangements against the new CIPFA Guidance and it recommends the changes proposed within this report to Constitution Working Group and Council. The proposed changes will ensure that the Council's audit arrangements continue to reflect best practice.

CIPFA 2018 Publication

- 9 The publication incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018) ("the position statement") which sets out CIPFA's view of the role and functions of an Audit committee and replaces the previous 2013 Position Statement.
- 10 As a key component of an organisation's governance arrangements, the Audit Committee has the potential to be a valuable resource to the whole authority. Where they operate effectively, Audit Committees can add value by supporting improvements across a range of objectives including:
 - Promoting the principle of good governance and their application to decision making;
 - Raising awareness of the need for sound internal control as well as contributing to the development of an effective control environment;
 - Supporting the establishment of arrangements for the governance and the management of risk;
 - Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
 - Reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
 - Supporting the development of robust arrangements for ensuring value for money; and

- Helping the authority to implement the values of ethical governance including the effective arrangements for countering the risks of fraud and corruption.

Key Changes

- 11 In the main, the principles of the previous Terms of Reference held within the constitution remain the same, however the new CIPFA guidance has expanded and provided more detail on the role of the Audit Committee. CIPFA have provided a template Terms of Reference for Audit Committees which has been adapted for Durham County Council. This is reflected in the revised Terms of Reference in Appendix 3.
- 12 The revised and updated 2018 edition recognises the development of Audit Committees since the original edition as well as incorporating the legislative changes that have affected the sector since 2013. It includes additional guidance and resources to support those acting as Audit Committee members in local authorities and those working with and supporting the committee's development. The key changes contained within CIPFA's latest guidance relate to the following areas:
 - Inclusion of an independent member on the Committee;
 - Additional guidance on how the Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
 - Additional guidance on how the committee can support independence of the external auditor and monitor the external audit process.
- 13 CIPFA's latest guidance has also made some additions to the suggested Terms of Reference for Audit Committees. These relate to the role of the Committee in relation to:
 - Reviewing the governance and assurance arrangements for significant partnerships or collaborations;
 - Considering any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit and to approve and periodically review safeguards to limit such impairments;
 - Providing free and unfettered access to the Audit Committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee;

- Supporting the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate; and
- Publishing an annual report on the work of the Committee.

14 Many of the areas that have been raised in the new CIPFA guidance have been operating in practice through the Committee prior to the formal release of the publication. However, the Terms of Reference for the Committee required updating and making clear the specific purpose, roles and responsibilities the Committee undertake.

Background papers

- Audit Committee Report, 31 May 2019, Review of the Audit Committee Terms of Reference and Self-Assessment of Effectiveness

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Appendix 1: Implications

Legal Implications

There are no specific legal implications associated with this report. The Audit Committee contributes to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

Any changes to the Audit Committee's Terms of Reference, which form part of the Council's constitution, require the approval of full Council.

Finance

There are no specific financial implications associated with this report. The Audit Committee has a clear terms of reference and directly effects and assists in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational and strategic risks.

Consultation

The Chair of the Audit Committee and Corporate Director of Resources were consulted prior to the proposed changes being considered by the Audit Committee.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that the Audit Committee does not continue to comply with relevant and up to date guidance and that its Terms of Reference are inappropriate in order to fulfil its role. To mitigate this risk, relevant updates are presented to the Committee as appropriate.

Procurement

None.

Appendix 2 – Current Terms of Reference of Audit Committee from the Council’s Constitution

Audit Committee

The Audit Committee is comprised of 9 Members of the Council, excluding Members of the Executive and Executive Support Members, and 2 co-opted non-voting Members. A Chair of the Corporate Overview and Scrutiny Management Board, any other Scrutiny Committee or the Standards Committee may not chair the Audit Committee.

Audit Committee approves the Council’s Final Accounts and is an advisory committee to the Council and the Executive on audit and governance issues in order to provide independent assurance over the adequacy of the Council’s risk management framework and associated control environment. In particular the Audit Committee will:-

On audit matters:

- (i) consider the Head of Internal Audit’s annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council’s corporate governance arrangements;
- (ii) consider summaries of Internal Audit reports on a quarterly basis;
- (iii) consider reports dealing with the performance of the Internal Audit service;
- (iv) consider a report from Internal Audit on agreed audit recommendations not implemented within a reasonable timescale;
- (v) consider the External Auditor’s annual letter, relevant reports, and the report to those charged with governance;
- (vi) consider specific reports as agreed with the External Auditor;
- (vii) consider the External Audit plan, comment on the scope and depth of external audit work, and to ensure it gives value for money;
- (viii) review the appointment of the Council’s External Auditor;

- (ix) within available resources be able to request work from Internal and External Audit.

On governance issues:

- (x) maintain an overview of the Council's Constitution in respect of changes to contract procedure rules and financial procedure rules;
- (xi) review any issue referred to it by the Chief Executive or a chief officer, or any Council body;
- (xii) monitor the effective development and operation of risk management and overall corporate governance in the Council;
- (xiii) monitor the operation of the Council's anti-fraud and anticorruption policies and strategy;
- (xiv) approval and adoption of the Council's Annual Governance Statement;
- (xv) consider the Council's arrangements for corporate governance and recommend actions to ensure compliance with best practices;
- (xvi) monitor and oversee the Council's arrangements for meeting its responsibilities under Health and Safety legislation.

On annual accounts matters:

- (xvii) approve the annual statement of accounts;
- (xviii) to comment on the External Auditor's report to those charged with governance on issues arising from the audit of the accounts;
- (xix) overview of probity aspects of internal and external audit;

Appendix 3: Revised Terms of Reference for Audit Committee

1. Statement of Purpose

- 1.1 The Audit Committee is a key component of Durham County Council's corporate governance. It provides an independent and high-level focus on audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 1.2 The purpose of our Audit Committee is to provide independent assurance to Cabinet and Full Council over the;
- a) Adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment.
 - b) Effective stewardship of public money and safeguarding the Council against losses due to fraud and corruption.
 - c) Financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drafting, auditing and certifying the Councils' annual accounts are dealt with properly.
- 1.3 It provides independent review of Durham County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes.
- 1.4 It oversees Internal Audit and External Audit, helping to ensure efficient and effective assurance arrangements are in place.

2. Authority and Governance

- 2.1 The Audit Committee reports to Full Council on audit and governance issues. It has delegated authority to approve the Annual Governance Statement and the Annual Audited Statement of Accounts. The Committee has access to other Committees e.g. Overview and Scrutiny, from which it can gain assurance on the adequacy and effectiveness of the Council's governance arrangements.

- 2.2 The Audit Committee has a reporting line to Cabinet and the Constitution Working Group and makes recommendations on improvements required to the Council's Corporate Governance arrangements. The Chair of the Audit Committee reports on the work undertaken by the Committee to Full Council.
- 2.3 To help maintain its independence, the Audit Committee has the right to meet privately with the External Auditor and the Chief Internal Auditor and Corporate Fraud Manager as considered necessary.
- 2.4 The Audit Committee can request employees, elected members, partners, contractors and the public to attend meetings in order to seek information and explanations as is considered necessary to fulfil its role.

3. Composition

- 3.1 The membership of the Audit Committee shall comprise of nine Members of the Council and two co-opted non-voting members.
- 3.2 A quorum of three elected members (including the Chair or Vice Chair) is required for decisions of the Committee to be ratified.
- 3.3 The Chair of the Audit Committee will be independent of the Executive and will not be the chair of a Scrutiny Committee or the Standards Committee.

4. Terms of Reference

Governance, Risk and Control

- 4.1. To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of corporate governance.
- 4.2 To review and endorse the Council's Local Code of Corporate Governance prior to consideration by the Constitution Working Group and approval by Full Council.
- 4.3 To review and approve the Annual Governance Statement (AGS) 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.

- 4.4 To consider the Council's arrangements to secure Value for Money and review assurances and assessments on the effectiveness of these arrangements.
- 4.5 To consider the Council's framework of assurance and ensure it adequately addresses the risks and priorities of the Council.
- 4.6 To monitor the effective development and operation of risk management in the Council.
- 4.7 To monitor progress in addressing risk-related issues reported to the Committee.
- 4.8 To consider reports on the Council's Health, Safety and Wellbeing performance and receiving assurance from management that the Council is not exposed to significant risk.
- 4.9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 4.10 To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- 4.11 To monitor the counter-fraud strategy, actions and resources.
- 4.12 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

- 4.13 To approve the Internal Audit Strategy and Charter.
- 4.14 To approve the risk-based Internal Audit Plan, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 4.15 To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.
- 4.16 To make appropriate enquiries of both management and the Chief Internal Auditor and Corporate Fraud Manager to determine if there are any inappropriate scope or resource limitations.

- 4.17 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of Internal Auditing of the Chief Internal Auditor and Corporate Fraud Manager. To approve and periodically review safeguards to limit such impairments.
- 4.18 To consider reports from the Chief Internal Auditor and Corporate Fraud Manager on Internal Audit's performance during the year. These will include;
- a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP).
 - c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough that it must be included in the AGS.
- 4.19 To consider the Chief Internal Auditor and Corporate Fraud Manger's annual report;
- a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of Internal Audit.
 - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion.
- 4.20 To consider summaries of specific Internal Audit reports as requested.
- 4.21 To receive reports outlining the action taken where the Chief Internal Auditor and Corporate Fraud Manager has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 4.22 To contribute to the QAIP and in particular, to the external quality assessment of Internal Audit that takes place at least once every five years.
- 4.23 To consider a report on the effectiveness of Internal Audit to support the AGS, where required to do so by the Accounts and Audit Regulations.

- 4.24 To provide free and unfettered access to the Audit Committee Chair for the Chief Internal Auditor and Corporate Fraud Manager, including the opportunity for a private meeting with the committee.

Counter Fraud and Corruption

- 4.25 To review and approve the Counter Fraud Strategy and considering whether it meets recommended practices alongside approving the Council's Sanctions Policy.
- 4.26 To review and approve the Council's Confidential Reporting Code (Whistleblowing).
- 4.27 Championing good counter fraud and anti-corruption practice to the wider organisation.
- 4.28 Reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and the local community.
- 4.29 Reviewing the Counter Fraud Plan of activity and resource, seeking assurance that it is in line with the strategy and fraud risk profile.
- 4.30 To review and approve the Council's Anti Money Laundering Policy.
- 4.31 Monitoring the performance of the Corporate Fraud Team.
- 4.32 Overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

External Audit

- 4.33 To support the independence of External Audit through consideration of the External Auditor's annual assessment of its independence and review any issues raised by Public Sector Audit Appointments (PSAA).
- 4.34 To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
- 4.35 To consider specific reports as agreed with the External Auditor.
- 4.36 To comment on the scope and depth of External Audit work and to ensure it gives value for money.
- 4.37 To commission work from Internal and External Audit.
- 4.38 To advise and recommend on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

Financial Reporting

- 4.39 To approve accounting policies, the approach to accounting estimates and the 'going concern' assertion.
- 4.40 To review the Annual Outturn Report and Treasury Management Outturn Report to consider how they might impact on the statement of accounts.
- 4.41 To review and approve the annual statement of accounts. Specifically, to consider whether appropriate 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.
- 4.42 To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability Arrangements

- 4.43 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.
- 4.44 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 purposes.
- 4.45 To publish an annual report on the work of the committee.

5. Meetings

- 5.1 The Audit Committee will meet at least four times a year. Meetings will be open to the public, but they may be excluded where information of an exempt or confidential nature is being discussed.
- 5.2 In order to maintain independence, the Chief Internal Auditor and Corporate Fraud Manager is the nominated lead officer for the Committee and will hold pre-agenda meetings with the Chair and Vice-Chair and will attend every meeting (or arrange a deputy).
- 5.3 The Corporate Director of Resources (Section 151 Officer) and the Head of Legal and Democratic Services (Monitoring Officer) as statutory officers are key to the Council's corporate governance and either they or a nominated deputy will attend each meeting.

- 5.4 A standard item will be added to each committee agenda for the Committee to be given the opportunity to discuss any exceptional items in private at the end of the meeting with Internal and External Audit