

Wolverhampton City Council

OPEN DECISION ITEM

Audit Committee

Date **11 April 2011**

Originating Service Group(s) **CUSTOMER AND SHARED SERVICES**

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Title/Subject Matter **AUDIT COMMITTEE TERMS OF REFERENCE**

RECOMMENDATION

That Members of the Audit Committee review the current terms of reference to determine their continued suitability in respect of the role of the Committee and Sub-committees.

1. PURPOSE AND BACKGROUND

- 1.1 The Council's Audit Committee was established following approval of a Cabinet Report by Council on 21 September 2005. In accordance with best practice, the terms of reference should be reviewed periodically and approved by the Council. Whilst the Committee has developed and introduced two sub-committees since first being formed, the terms of reference have not been formally reviewed against best practice.

2. DETAILS

- 2.1 The overall Statement of Purpose and Membership of the Committee as agreed by Council are detailed below

STATEMENT OF PURPOSE

The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, 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, and to oversee the financial reporting process.

MEMBERSHIP

The membership of the Committee will comprise of six to eight elected members having regard for the need for political balance. All members can be considered for membership of the Committee but the Committee should operate independently of the Executive and Scrutiny functions. The Cabinet Members for Resources and Support and Performance Management would be non-voting Members. The Chief Executive, Responsible Finance Officer, Chief Internal Auditor and Monitoring Officer are regular attendees. The Council's External Auditors have an open invitation to attend.

- 2.2 The current responsibilities and terms of reference for the Committee and Sub-committees as contained in the Council's Constitution are reproduced at Appendix 1 to this report. An example of specimen terms of reference taken from CIPFA's publication 'Audit Committees - Practical Guidance for Local Authorities' is reproduced at Appendix 2 for Members to give consideration as to how the Council's current arrangements mirror best practice.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising from this report.
Ref [GE/01042011]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report.
Ref [MW/04042011/L]

5. EQUAL OPPORTUNITIES IMPLICATIONS

5.1 There are no direct equal opportunities implications arising from this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from this report.

7. SCHEDULE OF BACKGROUND PAPERS

Cabinet Report 13 July 2005

Audit Committees – Practical Guidance for Local Authorities, CIPFA, 2005

*Responsibility for Functions***13. DELEGATIONS TO AUDIT COMMITTEE****13.1 Corporate Governance**

1. To oversee the Council's corporate governance arrangements, the work of the Council's internal auditors and the Council's response to external audit and other external inspections that relate to the Committee's work.
2. To review the operation and compliance with the Authority's Code of Corporate Governance.
3. To report annually to the Council on the operation of the Code of Corporate Governance.
4. To make recommendations on the content of the Code of Corporate Governance.
5. To make Standing Orders as to contracts (Contracts Procedure Rules).

13.2 Annual Governance Statement

To review and approve the Annual Governance Statement as required by the Accounts and Audit Regulations 2006. In doing so, the Committee will satisfy itself that it has obtained sufficient relevant and reliable evidence to support the disclosures made, in particular by:-

- Receiving reports on the monitoring and progress of action plans relating to corporate governance arrangements.
- The receipt of a review at least once a year of the effectiveness of the system of internal controls.
- Considering the progress and adequacy of management's response to these reviews.
- Receiving reports on the monitoring and review of risk management.

13.3 Statement of Accounts

To approve the annual Statement of Accounts, prior to submission to the external auditor.

13.4 Internal audit

To make decisions in respect of operational matters, and to make recommendations to the Council on policy matters. In particular, the Committee will:-

- Receive any internal audit strategies, codes of practice, audit plans and progress against such plans as it considers necessary.

Responsibility for Functions

- Receive the Annual Report on Internal Audit Activities.
- Review the progress and adequacy of management's response to internal audit recommendations and matters arising from the internal audit reports.
- Consider those internal audit reports which, in the view of either the Chief Executive, the Assistant Director (Corporate Services) or Head of Audit Services require to be brought to the attention of the Audit Committee.
- Keep under review and make recommendations to the Council on the content and operation of the Council's Anti-Fraud and Corruption Policy.

13.5 External Audit and Inspections

To make decisions in respect of operational matters and to make recommendations to the Council on policy matters. In particular, the Committee will:-

- Receive the external auditor's review of the Council's Statement of Accounts, Annual Audit Letter, Audit Plans and any other reports and relevant matters referred by the external auditor.
- Review the progress and adequacy of management's response to external audit recommendations and matters arising from other external inspection reports that relate to specifically to the Committee's purposes set out in 13.1. (This responsibility recognises the separate role of Scrutiny Panels in holding the Executive to account for how they respond generally to inspection reports and is not intended to be a substitute for this role).

13.6 Risk Register

To review on a regular basis the Council's risk register and arrangements for managing risk.

13.7 Good Practice

In undertaking its role the Committee will have regard to good practice as exemplified in:

1. CIPFA/SOLACE "Corporate Governance in Local Government".
2. National codes of conducts for members and officers.
3. CIPFA and Audit Commission statements.
4. Relevant aspects of the Turnbull Guidance on Internal Control in the private sector.

Responsibility for Functions

5. Advice given by the Assistant Director (Corporate Services).
- 13.8 **Audit Committee Sub Groups**

Audit Committee has established the following two sub groups to facilitate the discharge of its responsibilities

Sub Group 1 – Examination of Paid Accounts/Monitoring of Audit Investigations

Terms of Reference

1. Receive audit services reports on selected paid accounts in respect of compliance with Financial and Contracts Procedure Rules, other relevant corporate policies and Value for Money.
2. Monitor the progress of investigations undertaken by Audit Services.
3. Refer significant issues arising from 1 and 2 above to the next scheduled meeting of the Audit Committee.

Sub Group 2 - Final Accounts Monitoring and Review

Terms of Reference

1. Receive detailed training in respect of the process associated with the preparation, sign off, audit and publication of the Council's final accounts, including the Annual Governance Statement
2. Monitor the ongoing progress towards publication of the Council's final accounts, ensuring that statutory deadlines are achieved
3. To obtain explanations for all significant variances between planned and actual expenditure to the extent that it impacts on final accounts
4. Monitor the preparation of the Annual Governance Statement and the resolution of key issues arising.
5. Refer significant issues arising from 2, 3, and 4 to the next scheduled meeting of the Audit Committee

Audit Committee – Terms of Reference

Source: *Audit Committees – Practical Guidance for Local Authorities*, CIPFA, 2005

The committee will require formal terms of reference, covering its core functions, which should be formally adopted by the full council and reviewed on an annual basis, taking into account relevant governance developments and how it integrates with other committees within the authority.

An audit committee's terms of reference should cover the following areas:

- constitution
- membership
- attendance at meetings
- frequency of meetings
- authority
- duties
- reporting procedures.

Audit Activity

- To 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.
- To consider summaries of specific Internal Audit reports as requested.
- To consider reports dealing with the management and performance of the providers of Internal Audit Services.
- To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
- To consider the External Auditor's Annual Letter, relevant reports, and the report to those charged with governance
- To consider specific reports as agreed with the External Auditor
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To liaise with the Audit Commission over the appointment of the Council's external auditor.
- To commission work from Internal and External Audit.

Regulatory Framework

- To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
- To review any issue referred to it by the Chief Executive or a Director, or any Council body.

Appendix 2

- To monitor the effective development and operation of risk management and corporate governance in the Council.
- To monitor council policies on 'Raising Concerns at Work' and the 'Anti fraud and corruption strategy' and the Council's complaints process.
- To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.
- The Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- The Council's compliance with its own and other published standards and controls.

Accounts

- To review the 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.
- To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.