

# Wolverhampton City Council

## OPEN DECISION ITEM

### Audit Committee

Date **12 MARCH 2012**

Originating Service Group(s)

**DELIVERY**

Contact Officer(s)/

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Title/Subject Matter

**AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP**

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### **RECOMMENDATION**

That Members of the Audit Committee review the current terms of reference and membership in respect of the role of the Committee, and make recommendations to the Officer Constitution Review Group, the Special Advisory Group, Standards Committee and Full Council with regard to:

- The suggested revisions to the terms of reference for the Audit Committee and the Examination of Paid Accounts / Monitoring of Audit Investigations Sub Committee, and;
- The option to pursue regarding future membership of the Committee.

## 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 and the terms of reference and membership have remained unchanged since that date. In accordance with best practice, the terms of reference should be reviewed periodically and any changes approved by the Council.

## 2. **DETAILS**

- 2.1 The overall Statement of Purpose of the Committee as agreed by Council is detailed below:

*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.*

### **Audit Committee - Terms of Reference**

- 2.2 CIPFA provide a suggested terms of reference in their "Audit Committees: Practical Guidance for Local Authorities" document. At the time the Council's Audit Committee was established in 2005, a decision was made to not adopt the CIPFA model but to produce a modified "Delegations to Audit Committee" which are contained in the Council's Constitution. However, in their 2011 report on Internal Audit Effectiveness, PwC noted that these had a concentration on operational matters and highlighted that *"The role of the Committee is not sufficiently robustly defined to enable members to provide a suitable and valuable role to the Council"* and there was a risk that *"The Audit Committee does not have a sufficient remit to provide required assurances to the Council"*.
- 2.3 Therefore, PwC recommended that *"The role of the Audit Committee should be reconsidered in line with the CIPFA Audit Committees: Practical Guidance for Local Authorities"*.

As a result of this, the opportunity is now being taken for the Committee to adopt the model terms of reference as provided by CIPFA, in order to allow the Committee to more clearly demonstrate that it is focused on strategic matters and mirrors best practice.

The proposed new terms of reference for the Committee, and the current terms of reference as contained in the Council's Constitution are reproduced at Appendix 1.

Any recommended changes to the current terms of reference and membership made by the Committee, will be referred to the Officer Constitution Review Group, the Special Advisory Group, Standards Committee and Full Council.

### **Membership**

- 2.4 The current membership of the Committee as agreed by Council is as detailed below
- 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.

2.5 Also, in their recent review of Internal Audit Effectiveness, PwC were critical of a number of other aspects of the role of the Audit Committee and noted that *“Given the complexity of the situation and the technical nature of the concepts being dealt with, the composition and skills of the Audit Committee should be reconsidered to ensure that there is an appropriate skills mix in the Audit Committee”*.

They subsequently recommended that *“the composition and skills of the Committee should be reconsidered, including the need for independent and external contribution”*.

2.6 The introduction of independent and suitable Audit Committee members is an option that is being increasingly taken up by other Local Authorities. This can bring many benefits to both existing members and the organisation, including ensuring that someone with a background in audit, accountancy, risk management and the wider assurance agenda is available to offer their experience and expertise. CIPFA in their “Audit Committees - Practical Guidance for Local Authorities” state that “Often the injection of an external view, for specific discussion, can be seen as bringing a new approach and flavour for committee decisions”.

As the Government included the issue of independent members of an Audit Committee as part of their consultation on the future of local public audit, following the announcement of their intention to abolish the Audit Commission, the PwC recommendation was put on hold until the outcome of the consultation was known.

2.7 The Government’s response to the consultation has just been published (January 2012), and in it:

- They consider that requiring the appointment of an auditor to be undertaken by the full council on the advice of an independent audit committee is the most practical and effective way of ensuring independence of appointment.
- They have accepted that it might be difficult for public bodies to find enough suitable independent members to ensure a majority of independent members sit on an audit committee. Therefore, in order to distinguish between the existing traditional audit committees and the role they propose for such a committee in the appointment process, they have said that advice on the procurement and appointment of the auditor will be made by an Independent Audit Appointment Panel, independently chaired, with a majority of independent members. Where the body already has an independent audit committee, they may wish to use that committee to meet this requirement.
- They noted that a number of local public bodies signalled that they were interested in undertaking joint procurement exercises and sharing Independent Audit Appointment Panels or independent members. The Department for Communities and Local Government (DCLG) are to put in place arrangements to facilitate such an arrangement and intend to frame requirements in a way that will allow local public bodies to share appointment panels (and therefore independent members) to ease administration burdens and reduce costs. Local public bodies will be able to choose the model which suits their circumstances, and will have the flexibility to work with other bodies to jointly procure an auditor and reduce the costs of meeting this requirement.

2.8 Therefore, as the Government’s response to the consultation has now been published, it is an appropriate time to revisit the original PwC recommendation, and decide if the Council wishes to recruit suitable independent members on to the Audit Committee

and/or an independent Chair and reduce the number of elected members accordingly. At this stage there are a number of options that could be considered:

**Option 1:** The appointment of up to two independent members, with voting rights, to serve on the Committee. With a further possibility after a period of 12 months, for the Committee to review these positions and if deemed successful, extend it by seeking to recruit a further independent member.

**Option 2:** As option 1, but appointing one of the independent members as Chair.

**Option 3\*:** The appointment of a majority of independent members with voting rights, to serve on the Committee with the Chair selected from the independent members.

**Option 4:** To continue without any independent members on the Committee.

\* It should be noted that it may be difficult to recruit a sufficient number of suitable independent members to the Audit Committee in order to meet Option 3.

If independent members are to be sought, a job description and skills set would need to be prepared, along with a recruitment exercise (including advertising, shortlisting and interviewing) undertaken, in order to find suitable candidates. There is plenty of guidance readily available as to how best to undertake such a process, example job descriptions etc.

The role of any independent member recruited by the Council would also include that of membership of an Independent Audit Appointment Panel (either as a sole Council panel, or as part of a joint panel formed with other public bodies).

### **Examination of Paid Accounts / Monitoring of Audit Investigations Sub Committee – Terms of Reference**

- 2.9 Finally, in their review, PwC also commented that the work of the Examination of Paid Accounts / Monitoring of Audit Investigations Sub Committee was highly unusual and recommended that *“In order to provide Members with assurance over the payments processes, internal audit need to instigate a fully risk-based audit plan which will provide Members with the comfort over the controls systems in place. Once successfully initiated, this should remove the need for the ongoing paid accounts investigations”*.

Over time, the work of the Sub Committee has helped raise the profile, and seen an improvement in increased compliance with financial regulations and contract procedure rules. Therefore, the opportunity is now being taken for the Committee to review the terms of reference of the Sub-Committee, in order to address the recommendation, with the Committee retaining its focus on audit investigations, while assurance on paid accounts is received through the following:

- Absorbing the current paid accounts work into the wider transparency agenda. This would involve ensuring that the Council is publishing its expenditure data on its website in a timely manner and following the new DCLG guidance on exactly how and when it should be published. Looking at how many "Armchair Auditor" requests the Council is receiving, from which source (i.e. members of the public, the press etc.), how it is responding and what the outcomes are. Then report back on this to the Audit Committee on a regular basis.
- Presenting expenditure data extracts direct from the website, to the Audit Committee in order for members to select a much reduced sample for review (starting with say

4) and reporting back at the next Audit Committee meeting. In effect the Audit Committee would be acting as an additional Armchair Auditor.

- Undertaking an annual risk based audit on the Council's Creditor Payments system, incorporating the requirements of the External Auditors through the Managed Audit, and including extended work on the ordering and payment of goods and services, focussing upon compliance with Financial Regulations and Standing Orders. Again, the outcome of this review would be reported back to the Audit Committee as a discrete piece of work.

The proposed new terms of reference for the Sub Committee, and the current terms of reference as contained in the Council's Constitution are reproduced at Appendix 2.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications arising from this report.  
[GE/22022012/A]

### **4. LEGAL IMPLICATIONS**

- 4.1 There are no direct legal implications arising from this report  
Ref [MW/23022012/Y]

### **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**

Audit Committees: Practical Guidance for Local Authorities, CIPFA

**Audit Committee – Terms of Reference (revised)**  
*Source: CIPFA – Audit Committees, Practical Guidance for Local Authorities*

- 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.
  - 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

**Audit Committee – Terms of Reference (current)**  
*Source: The Constitution - Delegations to Audit Committee*

- 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).

- 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.

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

- 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.

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.

- 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.

### **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 (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).

### **Risk Register**

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

### **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.
5. Advice given by the Assistant Director (Corporate Services).

<b>Monitoring of Audit Investigations Sub Committee – Terms of Reference (revised)</b>	<b>Examination of Paid Accounts / Monitoring of Audit Investigations Sub Committee – (current)</b> <i>Source: The Constitution - Delegations to Audit Committee</i>
<ul style="list-style-type: none"> <li>• Monitor the progress of investigations undertaken by Audit Services.</li> <li>• Refer significant issues arising from the above to the next scheduled meeting of the Audit Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Monitor the progress of investigations undertaken by Audit Services.</li> <li>• Refer significant issues arising from 1 and 2 above to the next scheduled meeting of the Audit Committee.</li> </ul>