

**AUDIT COMMITTEE – 11th June 2014**

**AUDIT COMMITTEE – ANNUAL SELF-ASSESSMENT AND REVIEW OF TERMS OF REFERENCE 2014**

**1. Purpose of the Report**

- 1.1 This report presents the framework to allow the Audit Committee to review its Terms of Reference and working arrangements by means of a self-assessment utilising a model prepared by CIPFA (Chartered Institute of Public Finance and Accountancy) as part of its good practice guidance.

**2. Recommendations**

**2.1 It is recommended that the Audit Committee :-**

- i. **considers where or if any changes are required to the current Terms of Reference or constitutional arrangements and forward comments to the Head of Audit and Risk Management by 1st July in order to consider any changes necessary before the next Audit Committee meeting on 16th July; and**
- ii. **undertakes to use the self-assessment checklist as provided in the CIPFA document 'A Toolkit for Local Authority Audit Committees' and send completed checklists to the Head of Internal Audit and Risk Management by 1st July in order to consider any changes necessary before the next Audit Committee meeting on 16th July.**

**3. Introduction and Background**

- 3.1 Good corporate governance practice requires authorities to regularly review the terms of reference of its democratic arrangements and committees. It is therefore appropriate that the Audit Committee undertakes an annual review to ensure its remit and areas of responsibility remain relevant to the changing nature of local government and the Authority itself.
- 3.2 This annual exercise also supports the annual governance review process that advocates and prompts the review of all the Authority's constitutional arrangements. The Audit Committee will consider the Annual Governance Statement at its meeting on 16<sup>th</sup> July.

**4. Terms of Reference Review**

- 4.1 Members are encouraged to consider the Terms of Reference and satisfy themselves that they provide the appropriate and necessary remit for the Audit Committee to effectively discharge its responsibilities. The current Terms of Reference are attached as Appendix A for consideration and review. Any proposed changes of course would require consideration and approval by full Council.

4.2 The format of the Terms of Reference has been changed to ensure compliance with CIPFA latest recommended best practice guidance, issued in 2013.

4.3 As Members are aware, from 1st April 2013, internal audit have had to follow the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN). Therefore this is now reflected in the Audit Committee terms of reference at points 21, 22, & 24 of the attached draft.

## **5. Self-Assessment Review**

5.1 It is again proposed to utilise the checklist provided in the CIPFA document 'A Toolkit for Local Authority Audit Committees' to ensure the Committee's working arrangements are effective and that any areas for development are identified. The checklist questions are attached to this report (Appendix B). This checklist will be e-mailed to Audit Committee members to assist with its completion and submission.

5.2 Given that there is a mix of members of the Audit Committee it is appropriate that members complete the self-assessment checklist individually. The individual returns will be analysed and a composite assessment reported back to the July meeting. This will also serve to further challenge members' understanding and awareness of the Audit Committee and identify any areas of training and further development.

5.3 Previous reviews of the Audit Committee's general operation found that the Council's arrangements were very close to best practice and in some areas exceeded it. Whilst it is again not expected that any major areas are found to be deficient, the 'Toolkit' and members' views may prompt areas where the Committee could develop further.

## **6. Appendices**

6.1 Appendix A - Audit Committee Draft Terms of Reference (June 2014)  
Appendix B - Self-assessment checklist (extract from CIPFA Toolkit)

## **7. Background Information**

7.1 CIPFA 'Toolkit for Local Authority Audit Committees'.

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**Date :** 30th May 2014

**BARNSELY METROPOLITAN BOROUGH COUNCIL**  
**DRAFT AUDIT COMMITTEE TERMS OF REFERENCE**

**Statement of Purpose**

1. Our audit committee is a key component of Barnsley BMC's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of our audit committee is
  - To provide independent assurance of the adequacy of the risk management framework and the associated internal control environment.
  - To provide independent review of the Authority's governance, risk management and control frameworks.
  - To oversee the financial reporting and annual governance processes.
  - To oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
  - To promote the application of and compliance with effective governance arrangements across the Authority and its partner organisations.

**Governance, Risk and Control**

3. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
4. To review the Annual Governance Statement prior to approval 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.
5. To consider the overall adequacy and effectiveness of the system of internal control and the arrangements for risk management, control and governance processes and securing economy, efficiency and effectiveness (value for money).
6. To consider the council's assurance framework and ensure that it adequately addresses the risks and priorities of the Council.
7. To promote effective risk management throughout the Council in accordance with the Council's Risk Management Policy Objectives Statement.
8. To periodically review the Authority's strategic risk register.
9. To promote effective internal control by the systematic appraisal of the Authority's internal control mechanisms and by the development of an anti-fraud culture.
10. To review the Authority's arrangements for establishing appropriate counter-fraud strategy, policies and procedures.
11. To monitor compliance with and the effectiveness of anti-fraud and corruption policies and procedures.
12. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
13. To consider general issues and statistics in relation to the Council's Corporate Whistleblowing Policy.

14. To monitor compliance with the Authority's Partnership Governance Framework
15. To monitor compliance with the Authority's Information Governance Framework

**Internal Audit**

16. To approve and periodically review the Internal Audit Strategy and Audit Charter
17. To oversee, in consultation with internal auditors, the preparation of and approve a risk based annual audit plan for the Authority, 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.
18. To receive periodic reports from the internal auditor on performance against the plan.
19. To approve significant interim changes to the risk based internal audit plan and resource requirements.
20. To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resources limitations.
21. To review the performance of the internal audit function by way of quarterly performance management reports. These will include:
  - Update on the work of internal audit including key findings, issues of concern and action in hand as a result of the internal audit work.
  - Regular reports on the results of the Quality Assurance and Improvement Programme.
  - Reports on the instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Application Note, considering whether non-conformance is significant enough that it must be included in the AGS.
22. To consider the Head of Internal Audit's annual audit report.
  - The statement of the level of conformance with Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
  - 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 - these will assist the committee in reviewing the AGS.
23. To receive reports outlining the action taken where the Head of Internal Audit 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.
24. To contribute to the Quality Assurance and Improvements Programme and in particular, to the external quality assessment of internal audit that takes place once every five years.
25. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
26. To examine reports previously submitted to the Cabinet in respect of ongoing activities and investigations conducted by internal auditors and to make appropriate comments and recommendations.
27. To support the development of effective communication with the Head of Internal Audit.
28. To enhance the profile, status and authority of the internal audit function and demonstrate its independence.

**External Audit and other Inspectorates or Regulatory Bodies**

29. To oversee, in consultation with external auditors, the preparation of the annual audit plan for the Authority and to receive periodic reports from the external auditor on performance against the plan to ensure that it gives value for money.
30. To consider and report to Cabinet and the Council the annual audit letter.
31. To commission work from internal and external audit.
32. To consider the appointment of the Council's external auditor
33. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
34. To monitor compliance with external inspectorates' recommendations following their consideration and resolution by the Cabinet and/or Council. This includes
  - external audit reports,
  - Ombudsman reports, and
  - Other external inspectorates' reports
35. To determine any payments or provide other benefits in cases of maladministration by the Authority within the scope of section 92 of the Local Government Act 2000.

**Financial Reporting**

36. 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.
37. To consider the external auditor's report to those charged with governance on issues arising from the audit of accounts, and monitor management action in response to the issues raised by external audit.
38. To consider and review compliance with the Authority's Treasury Management policy.

**Accountability Arrangements**

39. 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.

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## Annex to Audit Committee Terms of Reference

### Constitution of the Audit Committee

- The Audit Committee comprises nine members of which :-
  - 4 are elected Barnsley Council members
  - 5 non-elected co-opted members
- The Chair will be an elected member
- The Vice Chair will be a co-opted member
- The Audit Committee shall operate on non-political grounds.
- The Committee has 8 scheduled meetings during the municipal year (May to April). These are planned around a combination of the end of the quarters (end of June, September, December and March) and the timetable for the consideration of the annual accounts and annual governance statement.

### Powers of the Audit Committee

- The Audit Committee reports directly to the Council.
- The Audit Committee is entitled to refer a matter to the Cabinet for the purposes of policy consideration and review.
- The Audit Committee has the ability to require a Director to attend a meeting to answer questions regarding governance, control or compliance issues identified in Internal or External Audit reports.

### Attendance

#### Members

- All members of the Committee are expected to do their best and commit to attend all meetings.

#### Officers

- The Chief Executive, Monitoring Officer and Section 151 Officer shall attend (or be represented) at all meetings of the Audit Committee.
- The Head of Internal Audit and Risk Management or his representative shall also attend all Audit Committee meetings.
- Other officers of the Authority shall attend as requested subject to the agenda of the meeting.
- The Audit Committee will be clerked by an officer from the Legal and Governance Directorate.

#### Quorum

The quorum for the Committee is 5 members of which at least 3 must be co-opted members.

### Relationship with other Committees

- The Audit Committee reports directly to the Council.
- The Chair (and/or Vice Chair) of the Audit Committee will attend an appropriate meeting of the Scrutiny Commission Chairs at least annually to share work programmes, avoid duplication and to maximise the benefit of each others work.

### **Member Training**

- Members of the Audit Committee will be required to undertake relevant training to ensure their skills and experiences are such that they maximise their input to the work of the Committee.
- All members of the Committee will complete an annual skills self-assessment to inform the annual training programme.

### **Annual Review and Reporting**

- The Audit Committee will undertake an annual review of its operation, effectiveness and terms of reference.
- This self-assessment will utilise the CIPFA guidance on Audit Committee in Local Authorities.
- The Committee will prepare an annual report covering its activities for the year, its performance and planned outcomes for the following year.

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## Audit Committee self-assessment checklist

Name :

Date :

Priority	Issue	Yes / No / N/A	Comment / Action
<b>ESTABLISHMENT, OPERATION AND DUTIES</b>			
<b>Role and Remit</b>			
1	Does the audit committee have written terms of reference?		
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?		
1	Are the terms of reference approved by the council and reviewed periodically?		
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?		
1	Can the audit committee access other committees and full council as necessary?		
1	Does the authority's Annual Governance Statement include a description of the audit committee's establishment and activities?		
2	Does the audit committee periodically assess its own effectiveness?		
2	Does the audit committee make a formal annual report on its work and performance during the year to full council?		
<b>Membership, Induction and Training</b>			
1	Has the membership of the audit committee been formally agreed and a quorum set?		
1	Is the chair independent of the executive function?		
1	Has the audit committee chair, either, previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?		
1	Are new audit committee members provided with an appropriate induction?		
1	Have all members' skills and experiences been assessed and training given for identified gaps?		
1	Has each member declared his or her business interests?		
2	Are members sufficiently independent of the other key committees of the council?		
<b>Meetings</b>			
1	Does the audit committee meet regularly?		
1	Do the terms of reference set out the frequency of meetings?		
1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?		
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?		
1	Are meetings free and open without political influences being displayed?		
1	Does the authority's S151 officer or deputy attend all meetings?		
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?		
<b>INTERNAL CONTROL</b>			
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit?		
1	Does the audit committee have responsibility for review and		

Priority	Issue	Yes / No / N/A	Comment / Action
	approval of the Annual Governance Statement and does it consider it separately from the accounts?		
1	Does the audit committee consider how meaningful the Annual Governance Statement is?		
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?		
1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?"		
1	Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?		
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?		
2	Does the audit committee review the authority's strategic risk register at least annually?		
2	Does the audit committee monitor how the authority assesses its risk?		
2	Do the audit committee's terms of reference include oversight of the risk management process?		
<b>FINANCIAL REPORTING AND REGULATORY MATTERS</b>			
1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?		
1	Does the audit committee consider specifically: <ul style="list-style-type: none"> <li>• the suitability of accounting policies and treatments</li> <li>• major judgements made</li> <li>• large write-offs</li> <li>• changes in accounting treatment</li> <li>• the reasonableness of accounting estimates the narrative aspects of reporting?</li> </ul>		
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?		
1	Does the audit committee review management's letter of representation?		
2	Does the audit committee annually review the accounting policies of the authority?		
2	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?		
2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?		
<b>INTERNAL AUDIT</b>			
1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?		
1	Does internal audit have an appropriate reporting line to the audit committee?		
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?		
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?		
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?		
1	Is there appropriate cooperation between the internal and external auditors?		
1	Does the audit committee review the adequacy of internal audit staffing and other resources?		

Priority	Issue	Yes / No / N/A	Comment / Action
1	Has the audit committee evaluated whether its internal audit service complies with the Public Sector Internal Audit Standards (PSIAS)?		
2	Are internal audit performance measures monitored by the audit committee?		
2	Has the audit committee considered the information it wishes to receive from internal audit?		
<b>EXTERNAL AUDIT</b>			
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?		
1	Does the audit committee hold periodic private discussions with the external auditor?		
1	Does the audit committee review the external auditor's annual report to those charged with governance?		
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?		
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?		
1	Does the audit committee assess the performance of external audit?		
1	Does the audit committee consider and approve the external audit fee?		
<b>ADMINISTRATION</b>			
<b>Agenda Management</b>			
1	Does the audit committee have a designated secretary from Committee / Member Services?		
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?		
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?		
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?		
<b>Papers</b>			
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?		
2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?		
<b>Actions Arising</b>			
1	Are minutes prepared and circulated promptly to the appropriate people?		
1	Is a report on matters arising made and minuted at the audit committee's next meeting?		
1	Do action points indicate who is to perform what and by when?		

