



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
29 SEPTEMBER 2005**

ITEM 4

Report of the Director of Finance

TERMS OF REFERENCE AND WORK PROGRAMME OF THE AUDIT AND ACCOUNTS COMMITTEE

RECOMMENDATIONS

- 1.1 To note the terms of reference of the Committee.
- 1.2 To agree the forward work programme of the Committee set out in Appendix 3.
- 1.3 To agree that the Head of Internal Audit and Risk Management has been accorded independent access to the Chair of the Committee and to bring reports to the Committee.

SUPPORTING INFORMATION

Background

- 2.1 Council on 20 July 2005 agreed to establish an Audit and Accounts Committee. Extracts of the report are attached as Appendix 2 including the terms of reference of the Committee.

Terms of Reference

- 2.2 The terms of reference of the Committee have already been set by full Council. Whilst the Committee needs to be comfortable with the scope of its activities, were it to disagree with the terms of reference then full Council agreement would be required to any amendment. The Committee is therefore being asked only to note its terms of reference. The more critical point is how the Committee goes about discharging its agreed functions, and the report is seeking to confirm this in terms of the work programme and the general approach to reporting.

Work Programme

- 2.3 The Committee is taking over a number of functions previously discharged by Cabinet or full Council, including all reporting in respect of internal and external audit, approval of annual accounts and the members' remuneration panel.
- 2.4 The proposed work programme, set out in Appendix 3, has been updated from the provisional work programme approved by Council. It now separates out the cyclical work of the Committee from the reports being brought to review particular methods of operation or functions, and to provide exception reporting.

2.5 Reporting on the outcome of internal audit activities will now be carried out at each quarterly committee, rather than half yearly, and this is the subject of a separate report on the agenda. The Committee does have time to consider these issues more fully than previously. The reports themselves are similar to those previously presented to Cabinet, but the Committee is also taking on a independent scrutiny role. The approach proposed is therefore that:

- the quarterly report will provide a summary of the findings of each audit, in terms of the rating of the internal control framework, the number of recommendations made and accepted
- the Head of Audit and Risk Management will brief members further on the issues relating to these audits, and will answer any questions
- based on this information, the Committee will choose, on an exception basis, a small number of audits where it would wish to see a follow up report presented by the managers responsible for the audited service, that would set out in more detail the issues and actions taken by them subsequently to address recommendations
- those reports would normally be presented at the next subsequent meeting of the Committee.

2.6 The number of follow up additional reports to be presented to Committee will need to be relatively limited for this system to be workable. It is suggested that the Committee should concentrate its attention on areas where the overall control environment appears relatively weak. However, Internal Audit also routinely carry out follow up audit work and the results will be summarised within the audit work programme. Reporting of special investigatory work – such as in response to instances of suspected fraud – will need to fall outside of this framework.

2.7 The other review activities which it is currently expected to report on over the year to June 2006 are as follows:

December 2005

- Financial Procedure Rules
- Anti-Fraud and Corruption Strategy
- Revising the Approach to Internal Audit of Schools

March 2006

- Review of Local Code of Corporate Governance

June 2006

- Review of Risk Management Strategy.

Audit Independence

2.8 It is important that the Audit and Accounts Committee is advised independently when discharging its audit functions. Consequently, the Head of Internal Audit and Risk Management has free access to the Chair of the Audit Committee and the ability to report directly to the Committee in order to raise any concerns, independent

of line management. Similarly, external audit representatives can exercise such access. Such access is standard accepted practice. In this respect the Audit Committee adds value to the audit process by protecting the independence of the audit function and advising auditors on the way in which the Committee interprets the particular results arising from audit work.

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Background papers: Appendix 1 – Implications
List of appendices: Appendix 2 – Proposal to Establish and Audit and Accounts Committee:
Council 20 July
Appendix 3 – Audit Committee Programme of Work to June 2006

IMPLICATIONS

Financial

1. None arising directly. It is expected that the functions of the Committee can be discharged within existing budgets.

Legal

2. The Council's Constitution has been amended to reflect the formation of the Audit Committee, working to these terms of reference.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.



DERBY CITY COUNCIL

COUNCIL
20 JULY 2005

DOCUMENT 17

Joint Report of the Directors of Corporate Services and Finance

Proposal to Establish an Audit and Accounts Committee

RECOMMENDATION

- 1.1 To establish an Audit and Accounts Committee with the membership and terms of reference as set out in Appendix 2.
- 1.2 To dissolve the Special Purposes Committee and appoint its current chair, vice chair and members to the Audit and Accounts Committee, with effect from 1 August 2005.
- 1.3 To agree that the initial meeting of the Committee will take place in September and will include decisions on member training and a forward programme of work.

SUPPORTING INFORMATION

- 2.1 For a number of years the Audit Commission has tried to encourage councils to regularly review their procedures for establishing effective corporate governance particularly, issues relating to Audit.
- 2.2 This Council has periodically reviewed its arrangements. It has previously concluded that as, according to the Council's Constitution, the Cabinet should be responsible for monitoring performance, and Internal Audit is an activity reviewing the performance of systems and governance arrangements, there has been no need to establish a separate audit committee. Reports summarising the results of Internal Audit's review work are brought before Council Cabinet and the Scrutiny Management Commission on a periodic basis and the Council Cabinet also approves the Annual Audit Plan. This is provided for within Financial Procedure Rules and continues the practice established in 2003/4.
- 2.3 On 7 June 2005 the Audit Commission published guidance on a new use of resources assessment which will part of the CPA assessment framework. **The use of resources assessment focuses on financial management, and links to the strategic management of the authority.** It looks at how financial management is integrated with strategy, and examines how corporate management supports Council priorities and delivers value for money. The assessment will be carried out annually, as part of each Council's external audit. The Council needs to submit its assessment of how it considers it meets the resources framework by 31 July 2005. The Council will be unable to be classified as an 'excellent' authority overall, if it fails to achieve at least a Level 3 against the use of resources assessment as a whole.

2.4 One of several elements of the use of resources assessment is that the Council must demonstrate how well its internal control environment enables it to manage its significant business risks, which includes providing evidence that the Council reviews and reports on its system of internal control and that it has an audit committee or equivalent and an internal audit function. The annual internal audit report presented to Cabinet on 12 July 2005 acknowledges that an audit committee would facilitate more extensive reporting to members of internal control issues and viewed the establishment of such a committee positively.

2.5 The Audit Commission’s 1996 publication ‘Called to Account’ identified that at that time, only 8% of local authorities had audit committees. It gave the following as the main areas where an audit committee could assist with corporate governance within a local authority:

- Raising the profile of internal controls
- Development of an anti-fraud culture through receiving anti-fraud policies and statements
- Reviewing financial procedures and their operation
- Agreeing audit plans and monitoring delivery
- Monitoring audit performance including time of responses and implementation of recommendations

This list could be extended, given developments in local government over the past nine years, for example the emergence of risk management as a corporate issue.

2.6 The Council must demonstrate the following in relation to audit committees as part of the requirements to achieve a CPA use of resources score at the levels below:

Level 2	Level 3	Level 4
<p>An appropriate member group has responsibility for review and approval of the Statement on Internal Control and considers it separately from the accounts.</p> <p>There is no audit committee but the core functions of an audit committee have been identified and are being undertaken by a member group.</p>	<p>There is a specific member group (such as an audit sub-committee or member panel) which has audit and governance issues as the principal responsibility in its terms of reference.</p> <p>The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment.</p>	<p>There is an audit committee which is constituted as a full committee of the council and is independent of both the Executive and Scrutiny functions.</p> <p>The council has taken steps to ensure that the audit committee chair either has previous knowledge of, or has received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime.</p> <p>Audit committee members are provided with specific training relevant to their responsibilities. The audit committee has terms of reference which are reviewed on an annual basis, taking into account relevant governance developments and how it integrates with other committees within the Council</p>

- 2.7 In summary, to achieve Level 3 or 4 the Council must establish an independent Audit Committee with a forward looking programme of meetings and adequately trained members.
- 2.8 Taking all this into account, it is proposed that an Audit and Accounts Committee be established as a full committee of the Council with scheduled meetings four times a year. As the Committee will be a committee of Council, it will be independent of the executive and scrutiny functions and both executive and non-executive members can be appointed to it. The committee should consist of 9 members with the seats allocated according to the proportionality rules. Full Council will appoint the Chair. It is proposed that the terms of reference set out in Appendix 2 be adopted.
- 2.9 The first meeting of the Committee is proposed for September 2005. It is intended that this first meeting should at a minimum:
- Confirm that the Committee agrees with its terms of reference and the basis on which it is to meet
 - Confirm a forward programme of work for the Committee, a provisional version of which is given in Appendix 3
 - Consider any specific reports consistent with the forward programme
 - Consider and agree a programme of appropriate training for members
 - Consider a programme to revise and update the Council's financial procedure rules
- 2.10 The terms of reference of the proposed Committee also include a responsibility to review the processes supporting corporate governance within the Council, as this is closely allied to the internal control framework. The Committee as constituted could also take on the functions of the Special Purposes Committee in relation to the annual accounts and member remuneration, and is named accordingly.
- 2.11 It is therefore also proposed that the Special Purposes Committee be dissolved and its functions absorbed into the terms of reference for the Audit and Accounts Committee. Membership could remain the same with Councillor Burgess as Chair. The Special Purposes Committee is meeting in July and the change cannot therefore take effect before the end of July.
- 2.12 The full membership of the Committee would be:

Chair – Councillor Burgess

Vice-Chair – Councillor Hickson

Councillors Care, Graves, Jones, Redfern, Roberts, Smalley and Williamson

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Background papers: List of appendices:

None Appendix 1 – Implications

Appendix 2 – Audit and Accounts Committee – Terms of Reference

Appendix 3 – Audit and Accounts Committee – Provisional Programme of Work

IMPLICATIONS

Financial

- 1.1 By replacing the Special Purposes Committee with an Audit and Accounts Committee, the additional resources required to service meetings will be minimal providing that the Committee meets no more than four times a year. The extra management and audit staff input needed to support reports to the Committee will be met from existing staffing resources within the Finance Directorate.

Legal

- 2.1 It is proposed that the Audit and Accounts Committee will operate in accordance with the provisions set out in the Council's Constitution.

Personnel

- 3.1 There will be an expectation that appropriate officers will attend meetings of the Audit and Accounts Committee to present reports and answer questions.

Equalities impact

- 4.1 None.

Corporate objectives and priorities for change

- 5.1 **The proposal furthers the priorities of working towards improving customer service, in the city centre and locally, working towards minimising increases in Council Tax and increasing value for money from our services, improving business processes and the use of ICT**

Audit and Accounts Committee Terms of Reference

Composition

Membership of the Audit and Accounts Committee shall comprise 9 Members to include: the Leader of the Council; the Deputy Leader of the Council; the Chair of the Scrutiny Management Commission; the Leader of the Main Opposition Group; plus 5 other Members.

Terms of Reference

Internal and External Audit

1. To approve and review the annual Internal Audit Plan
2. To receive External Audit reports and opinions, including annual and interim external audit reports.
3. To receive quarterly updates from Internal Audit on Internal Audit findings, opinions and adequacy of management response to Internal Audit advice, recommendations and action plans.
4. To receive, on an exception basis to be determined by the Committee, details of specific Internal Audit findings and the management responses to these findings.

Risk Management

5. To approve and review the Council's risk management policy and strategy
6. To review the content of the strategic risk register, the adequacy of associated risk management arrangements and the arrangements for departmental risk registers.

Internal Control Arrangements and the Statement on Internal Control

7. To approve the proposed Statement on Internal Control - SIC - and review the procedures followed in its completion and supporting documentation.
8. To review the effectiveness of internal control across the organisation and the adequacy of action taken to address any weaknesses or control failures.

Anti-Fraud and Corruption Arrangements

9. To approve and review Anti-Fraud and Corruption policies and strategies and the effectiveness of their application throughout the Authority.

Corporate Governance

10. To review the Corporate Plan and the Best Value Performance Plan to ensure consistency with the internal control and risk management framework.
11. To review internal rules, regulations and policies of relevance to corporate governance, including the Local Code of Corporate Governance and to receive the Corporate Governance Health Check.

12. To review the adequacy of financial and contract procedure rules and to make recommendations for changes to Council.

Accounts

13. To approve the annual Statement of Accounts, including subsequent amendments.
14. To consider the External Auditor's report on the audit of the annual financial statements.
15. To be responsible for any matters arising from the audit of the Council's accounts, including the auditor's opinion on the accounts, identification of any misstatements, comments on the accounting and internal control systems and qualitative aspects of accounting practices and financial reporting.

Remuneration

16. To carry out all powers and duties in respect of appointments to the Independent Remuneration Panel on Members' Allowances.

**AUDIT AND ACCOUNTS COMMITTEE
PROGRAMME OF WORK TO JUNE 2006**

Committee	Cyclical Activities	Review Activities
29 September 2005	<ul style="list-style-type: none"> - Terms of Reference and Work Programme of Audit Committee to June 2006 - Training Plan (this cycle only) - Quarterly Internal Audit Report - Final Accounts 2004/5 - External Audit SAS610 Report - Final Accounts 2004/5 – Post Audit Reapproval (Not required this cycle) - Indicative External Audit Plan for 2005/6 	
December 2005	<ul style="list-style-type: none"> - Quarterly Internal Audit Report - Risk Management – Update - External Audit Management Letter for 2004/5 - External Audit Plan 2005/6 - Training Session for Committee Members 	<ul style="list-style-type: none"> - Follow Up Reports (as required) - Review of Financial Procedure Rules - Review of Anti-Fraud and Corruption Strategy - Review of the Approach to Schools Audits
March 2006	<ul style="list-style-type: none"> - Quarterly Internal Audit Report - Internal Audit Strategy and Annual Plan 	<ul style="list-style-type: none"> - Follow Up Reports (as required) - Review of Local Code of Corporate Governance
June 2006	<ul style="list-style-type: none"> - Internal Audit Annual Report 2005/6 - Statement of Internal Control - Statement of Accounts 2005/6 - Risk Management Annual Report - External Audit Interim Report 	<ul style="list-style-type: none"> - Follow Up Reports (as required) - Review of Risk Management Strategy
To be determined	<ul style="list-style-type: none"> - Appointments to Remuneration Panel on Members Allowances 	<ul style="list-style-type: none"> - Review of Corporate Plan and Best Value Performance Plan (for consistency with the internal control framework) - Corporate Governance Health Check