

# AUDIT COMMITTEE

## Terms of Reference

DRAFT v6 – November 2018 – Tracked Changes

## Article 7 - The Audit Committee

### 7.00 Statement of Purpose:

The terms of reference sets out the Audit Committee's position in the governance structure of the Council.

The Audit Committee is a key component of Flintshire County Council's (the Council'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.

### 7.01 **Role:**

The Audit Committee's role and functions will be to:

- A.** Review the effectiveness of the Authority's systems of corporate governance, internal control and risk management systems, and to make reports and recommendations to the County Council on the adequacy and effectiveness of these arrangements;
- B.** Oversee the reporting of the statutory financial statement's process to ensure the balance, transparency and integrity of published financial information, and to review the financial statements prepared by the authority and recommend them to County Council; and

Review and scrutinise the County Council's financial affairs, and to make reports and recommendations on them. The role of the Committee is to assure the budgetary control systems of the Council rather than the scrutiny of the use and value for money of expenditure which is the role of the respective Overview and Scrutiny Committees.

- C.** Monitor the performance and effectiveness of the internal and external audit functions within the wider regulatory context.
- D.** Report to the Council annually, summarising the Committee's activities and recommendations.

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**A. Corporate Governance, Risk Management and Internal Control and Risk Management**

1. Evaluate whether Senior Accountable Officers and service teams are ~~management is~~ setting the appropriate “control culture” by communicating the importance of internal control and risk management.
2. Consider and assure the annual update of the Code of Corporate Governance against the ‘Delivering Good Governance Framework (Wales)’.
3. Consider and assure the draft Annual Governance Statement and make appropriate recommendations/observations prior to its submission to the Council’s Regulators.
4. Evaluate the overall ~~effectiveness~~ effective development and operation of the internal control and risk management frameworks and consider whether ~~recommendations made~~ actions raised by the internal and external auditors have been implemented by Senior Accountable Officers ~~management~~.
5. Review and assure the Risk Management Strategy through regular reports on risk management and business continuity plans, processes and outcomes.
6. Monitor progress in addressing risk related issues reported to the Committee.
- 5.7. Consider the Council’s framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
8. Keep under review the Council’s Anti-Fraud and Corruption Strategy, Fraud Response Plan and Whistleblowing Policy and the assessment of fraud risks and potential harm to the Council from Fraud and Corruption.
- 6.9. Consider the Council’s arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- 7.10. Receive reports on all fraud identified and any other special investigations, and action taken.
- 8.11. Consider how Senior Accountable Officers ~~management is~~ are held to account for the security of computer systems and applications to protect against computer fraud or misuse.
- 9.12. Ensure the rigorous application of the agreed protocol for the reporting and decision making over business cases for collaborative projects, the management of the transition for approved collaborations, and the subsequent performance management arrangements for the new collaborative services.

13. Obtain regular updates from Senior Accountable Officers management and legal advice regarding compliance matters, and be satisfied that all compliance matters have been considered in preparing the financial statements.
14. The Chair and Vice Chair of the Audit Committee together with the Chairs and Vice Chairs of the six Overview and Scrutiny Committees will attend the Chair and Vice Chair Liaison Group with the primary aim to reduce duplication of work, ensure there is a shared coverage of the Council's risk profile and escalate poor performance between respective Committees.

Appendix A of the Audit Charter provides a diagram of the co-ordination of work between the Overview and Scrutiny Committees and Audit Committee.

## B. Financial:

### Statutory Financial Statements

1. Receive the draft annual Statement of Accounts, together with the underlying accounting policies for information. Consider and comment on the final statement of accounts following the receipt of the proposed audit opinion from the Wales Audit Office prior to recommending their approval to the Council.
2. Understand the controls and processes implemented by Senior Accountable Officers management to ensure the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate ~~management~~ review.
3. Meet with management and external auditors to review the financial statements, the key accounting policies and judgements, significant accounting and reporting issues and their impact on financial reports, and the results of the audit.
4. Ensure that significant adjustments, unadjusted differences, disagreements with Senior Accountable Officers management and critical accounting policies and practice are discussed with the external auditor.

### Financial Affairs

5. Understand the internal control systems implemented by Senior Accountable Officers and service team for the approval of transactions and the recording and processing of financial data.
6. Gain an understanding of the current areas of greatest risk around financial controls and advise and assure on risk management.

7. Keep under review the Council's financial procedure rules and contract procedure rules and all other corporate directions concerning financial control.
8. Review and assure the Treasury Management Strategy and Policy and consider quarterly updates on Treasury Management and make appropriate recommendations / observations to the Cabinet.

### C. Internal and External Audit

1. Keep under review the joint working arrangements of the Council's Internal and External Auditors.

#### Internal Audit

2. Promote the role of internal audit within the Council, as a key element of its control environment.
3. Review and approve the Internal Audit Charter, outlining the role, scope, independence, authority, responsibility and reporting of the department.
4. Keep under review the organisational structure and resource requirements of the Internal Audit Section and consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Internal Audit Manager. To approve and periodically review safeguards to limit such impairments.
5. Make appropriate enquiries of both Senior Accountable Officers and the Internal Audit Manager to determine if there are any inappropriate scope or resources limitations. Ensure that no management restrictions are placed in the scope of audit's examinations
6. Review, approve (but not direct) and monitor the delivery of the risk-based internal audit plan ~~and the risk assessment exercise on which the plan is based, the approach to using other sources of assurance and any work required to place reliance upon those other sources~~ and ensure ~~it~~ the plan considers changes arising from Government, Assembly or Council initiatives.
7. Approve significant interim changes to the risk based internal audit plan and resources requirements. (New)
- 7.8. Receive summaries of all internal audit reports issued, highlighting key ~~recommendations and recommendations of reports~~ actions with corporate control implications.

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9. Consider reports from the Internal Audit Manager on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
- Updates on the work of internal audit including key findings, issues of concern including monitoring the implementation of agreed actions contained within internal audit reports, receive report on actions not implemented within good timescales and seek explanations from officers where required.
  - Regular reports on the results of the Quality Assurance Improvement Programme (QAIP); (New)
  - Reports on instances where the internal audit service does not conform to the Public Sector Internal Audit Standards (PSIAS) and Local Governance Advice Note (LGAN), considering whether the non-conformance is significant enough that it must be included in the AGS. (New)
- ~~8. Monitor the implementation of agreed recommendations contained within internal audit reports, receive reports on recommendations not implemented within agreed timescales and seek explanations from officers where required.~~
- ~~9.10. Receive and consider the Internal Audit Managers annual report; and ensure that the annual opinion is reflected in the Annual Governance Statement~~
- 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. (New)
  - 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 Annual Governance Statement (AGS). (New)
  - Keep performance indicators under review and evaluate, on an annual basis, the performance and effectiveness of internal audit and its compliance with best practice.
11. Consider summaries of specific internal audit reports as requested. (New)
- ~~10. Keep performance indicators under review and evaluate on an annual basis the performance and effectiveness of internal audit and its compliance with best practice.~~
12. Receive reports outlining the action taken where the Internal Audit Manager has concluded that Senior Accountable Officers and service teams have accepted a level
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of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions. (New)

13. Contribute to the Quality Assurance Improvement Programme (QAIP) and in particular, to the external quality assessment of internal audit that takes place at least once every five years. (New)

~~11-14.~~ Meet separately with the Internal Audit Manager to discuss any matters that the Committee or internal auditors believe should be discussed privately.

~~12-15.~~ Should the needs arise, a Arbitrate in the event of any failure to agree between a Director or Head of Service-Senior Accountable Officers and internal audit.

~~13-16.~~ Discuss with the external auditor the standard of work of internal audit ~~staff~~.

### External Audit and External Regulatory Bodies

#### External Audit

17. Support the independence of external audit through consideration of the external auditor's annual assessment of its independence. (New)

~~14. Ensure that the annual audit is undertaken in compliance with statutory requirements.~~  
~~15-18.~~ Review the external auditors' proposed audit scope and approach for the current year in the light of the Authority's present circumstances and changes in regulatory and other requirements arising from Government, Assembly or Council initiatives.

19. Ensure that the annual audit is undertaken in compliance with statutory requirements.

20. Receive all audit reports, and the annual audit letter, issued by the external auditor, and ensure that all agreed recommendations are implemented.

~~16-21.~~ Consider specific reports as agreed with the external auditor. (New)

~~17-22.~~ Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.

~~18-23.~~ Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately. Ensure the auditors have access to the chair of the audit committee when required.

24. Review, annually, ~~on an annual basis~~ the performance of external audit and co-ordinate any feed back requested from the Wales Audit Office.

**External Regulation: Performance** *(New)*

25. External arrangements for regulation and assurance are provided by a number of statutorily appointed bodies such as the Wales Audit Office (WAO), Estyn and the Care Inspectorate Wales (CIW), plus a number of other external regulatory bodies. To examine how the organisation manages and spends public money including achieving value in delivery. This work is co-ordinated by the Chief Executive’s Business and Communications team and a shared protocol for these working arrangements is in place.
26. To gain assurance and confidence of the Council’s response to the external regulatory findings the Audit Committee will:
- a) Receive periodic reports from external regulators which will include the Council’s response to the reports and ensure that effective processes are in place for setting and monitoring against proportionate and effective action plans.
  - a)b) Receive an annual report collating external regulatory activity on improvement assessment work which is supplemented by local risk based audit work; and

b)c) Receive the Annual Improvement Report from the Auditor General

**~~D.~~ Financial Affairs**

~~Understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data.~~

~~Gain an understanding of the current areas of greatest risk around financial controls and advise and assure on risk management.~~

~~Keep under review the Council’s financial procedure rules and contract procedure rules and all other corporate directions concerning financial control.~~

~~Review and assure the Treasury Management Strategy and Policy and consider quarterly updates on Treasury Management and make appropriate recommendations / observations to the Cabinet.~~

**ED. Accountability Arrangements General**

1. Require the attendance at the Committee of any officer or member, or the submission of a report from any officer, to provide further explanation in connection with any of the above terms of reference.
2. Evaluate the Committee’s own performance, both of individual members and collectively, on a regular basis.

3. The Committee must meet at least once a year and must also do so if the Council decides or if at least a third of the Committee's members require a meeting. Beyond those requirements the Committee can meet whenever it likes.
4. The Audit committee will keep the above terms of reference under annual review and propose any amendment to the County Council.
- 4.5. Report to full council and publish an annual report on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

## 7.02 ~~Form and~~ Composition

1. The Chair and Vice-Chair of the Audit Committee will be chosen by the Committee itself at its first meeting following each annual general meeting. The Chair and Vice Chair of the Audit Committee will be chosen from amongst the opposition group(s), non aligned Councillors or lay member on the Council (that is to say from amongst the group(s) none of whose members are included in the Cabinet).
- 4.2. The County Council shall appoint one person who is neither a serving Councillor nor an officer of the County Council or any other Council to serve as a lay member of the Committee with full voting rights. The lay member's term of office shall be from the first County Council meeting following the annual general meeting following the County Council elections until the first County Council meeting after the annual general meeting following the next County Council elections. No more than one member of the Committee shall be on the Council's Cabinet. The Council Leader cannot be a member of the Committee.
- 2.3. It is the express wish of the Council that there should be continuity of membership of the Audit Committee so as to build up a body of expertise and maintain a consistency of approach.
- 3.4. In recognising the express wish of the Council, but observing the requirements of the legislation for political balance, the Audit Committee will comprise seven Members with the seats allocated in accordance with the legislation to the appropriate political groups and one lay member. Any proposed substitution shall comply with Council Procedure Rule 22.4 and the proposed substitute shall have attended relevant training. Substitutes will only be permitted where the Audit Committee, at the commencement of its meeting, agrees that good reasons exist for substitution.
- 4.5. Members will receive induction training on appointment to the Committee. Ongoing training will be provided as necessary to meet the requirements of the Committee, based on the skills and experience of the members.
- 5.6. The business of the Committee shall be conducted apolitically.