

Terms of Reference for Audit Matters and Training

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1 Purpose of Report

The report seeks to confirm clear terms of reference (TORs) for audit matters, and then to seek guidance from Members on priority areas for training.

2 Recommendations

The Committee is asked:

- a) Whether it wishes to recommend variations to its Terms of Reference, for consideration by the Authority; and
- b) Whether it feels there are any specific training needs it requires in the light of its Terms of Reference.

3 Background

The Committee has always kept under review its terms of reference. In November 2007, it considered these in relation to the Chartered Institute of Public Finance and Accountancy (CIPFA) checklist for measuring the effectiveness of an Authority's Audit Committee. It decided that it did not wish to recommend any changes to its TORs but that it did wish to take into account a number of comments:-

- i one to one induction sessions could be arranged for members who felt they needed them;
- ii any issues from the recent Member Development Reviews should be followed up where relevant; and
- iii in respect of the question in the checklist – “is the chair free of executive or scrutiny functions?”, it should be made clear that the Chair is elected from the largest opposition group.

The Human Resources Committee did consider the outcome of the Member Training and Development Questionnaires in December 2007, and although audit issues in themselves were not singled out, budgets, internal control, financial monitoring, asset management and procurement, and corporate governance were all considered by some members to be development needs. It is planned to meet these needs by either an internal or external training provider.

This Committee, in March 2008, considered its audit training needs. This was in response to the offer of extending the training given by our internal audit provider to its own Authority – Shropshire County Council. In so doing the Committee decided that it would reconsider the level of detail in its TORs as this might focus attention on specific training needs. A copy of the County Council's TORs was tabled. The Committee also felt it would be helpful to revisit the CIPFA checklist when considering its TORs and this is attached at Appendix A.

4 Review of the Authority's Terms of Reference

The Authority's TORs is attached at Appendix B and those of Shropshire County Council at Appendix C.

Particular comments received since March suggest the following:-

- i a specific requirement for an annual Audit report to the Authority, rather than the present arrangement of reporting through the minutes;
- ii to specifically refer to a review of the financial statements, external auditor's opinion and reports to members on the Statement of Accounts. At present the Statement of Accounts are presented to a seminar of all members, prior to their consideration at the June meeting of the Fire Authority;
- iii to specifically refer to reviewing the Head of Internal Audit's Annual Report and opinion on the Authority's framework of Internal Controls. This report is made to the Committee at the meeting following the end of the financial year;
- iv to consider the Statement of Accounts before submission to the full Authority. As referred to in "ii" above there is already a process in place, and it would be difficult to timetable in an additional process, although an Audit and Performance Management Committee might replace the current arrangements;
- v to specifically consider the effectiveness of the system of Internal Audit;
- vi to specifically consider the Authority's Annual Governance Statement;
- vii to specifically consider the External Auditor's Work Plan, Management Letter and Use of Resources judgement; and
- viii to specifically consider the Annual Governance Report by the External Auditor following completion of the Annual Audit of Accounts.

It has also been suggested that a Competency framework is set out, on the lines of that in the County Council's TORs (see Appendix C). Most of these issues (in a) should be covered by the wider process of member development for all members. On the areas raised in "b" i.e. finance; Risk Management; Audit; Governance and Regulatory frameworks; and the Wider Governance Environment, members might consider whether individual members should have specialisms in one of these areas (e.g. your Chair is a member of the Risk Management Group)

5 Training Needs

The suggested specific issues suggested for fleshing out the Committee's TORs may trigger specific training needs, as might the Competency framework.

The Audit Committee at Shropshire County Council also have training planned in the following areas, which this Committee might wish to prioritise and make use of:-

- i Internal Audit Role
- ii External Audit Role
- iii The role of the Audit Committee
- iv Annual Accounts
- v Annual Accounts External Audit perspective
- vi Annual Governance Statement
- vii Corporate Plan and Performance Management Arrangements
- viii Risk Management for Audit Committee Members
- ix Corporate Governance Arrangements
- x The Authority's Constitution
- xi Contract Rules
- xii Financial Rules
- xiii CIPFA Code of Guidance for Internal Audit 2006 update
- xiv The role of IT Audit

6 Financial Implications

There is funding available for member training, although a significant actual programme might need to be phased over more than one year.

7 Legal Comment

There are no legal implications arising directly from this report.

8 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

9 Appendices

Appendix A

CIPFA Checklist on the Effectiveness of Audit Committees

Appendix B

Shropshire and Wrekin Fire Authority Audit and Performance Management Committee Terms of Reference

Appendix C

Shropshire County Council Audit Committee Terms of Reference

10 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	*
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*

Self-Assessment Checklist – Measuring the Effectiveness of the Audit Committee

Issue		Comment
Terms of Reference		
1	Have the committee's terms of reference been approved by full council?	Yes - The terms of reference of the Committee were reviewed and approved by the full Fire Authority on 17 October 2007.
2	Do the terms of reference follow the CIPFA model?	The terms of reference follow the core functions set out in CIPFA's guidance rather than the suggested terms of reference. The Committee is asked to review this.
Internal Audit Process		
3	Does the committee approve the strategic audit approach and the annual programme?	Yes – A report on the four-year programme is being considered at the November meeting.
4	Is the work of internal audit reviewed regularly?	Yes – Progress reports are given on each year's audit and follow-up matters.
5	Are summaries of quality questionnaires from managers reviewed?	No – To date we have not brought summaries of the quality questionnaires. If, however, there should be any cause for concern, reports would be made.
	Is the annual report, from the head of audit, presented to the committee?	Yes – The report for 2006/07 was presented to the Committee in July 2007.
External Audit Process		
6	Are reports on the work of external audit and other inspection agencies presented to the committee?	Yes – The annual Audit Commission Report is presented each year. The 2006/07 report was presented to the September 2007 Committee meeting. The Use of Resources report was also presented to the Committee.
7	Does the committee input into the external audit programme?	No – To date there has been no formal input into the external audit programme by the Committee. The Audit Plan is, however, presented to the full Fire Authority.

	External Audit Process cont.	
8	Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	Yes – Reports back are given where recommendations have been made by the Committee.
9	Does the committee take a role in overseeing: <ul style="list-style-type: none"> • Risk management strategies • Internal control statements • Anti-fraud arrangements • Whistle-blowing strategies 	Yes – All these are subject to reports each year to the Committee, or directly to the Fire Authority.
Membership		
10	Has the membership of the committee been formally agreed and a quorum set?	Yes – The membership of the Committee was formally agreed at the Fire Authority's Annual Meeting on 18 July 2007 and the quorum reviewed and set at the Fire Authority's meeting on 17 October 2007.
11	Is the chair free of executive or scrutiny functions?	This is not applicable as the Fire Authority does not operate executive arrangements. In addition the Chair of the Committee is elected from a member of the largest opposition group.
12	Are members sufficiently independent of the other key committees of the council?	Yes as far as is practicable – Members of the Strategy and Resources Committee are precluded from sitting on the Committee and vice versa. As the Fire Authority has only 17 Members, it is, however, impossible to ensure that Members of the Committee do not sit on any other Committee.
13	Have all members' skills and experiences been assessed and training given for identified gaps?	Yes – Members undergo an annual review, which identifies any development needs and training is then conducted to meet those needs. The 2007/08 review is currently underway.
14	Can the committee access other committees as necessary?	Yes – All meetings of all of the Committees are open and the papers are available via the Fire Authority's website.
Meetings		
15	Does the committee meet regularly?	Yes – The Committee meets quarterly.

16	Are separate, private meetings held with the external and the internal auditor?	No – No meetings are held by members other than formal public meetings.
17	Are meetings free and open without political influences being displayed?	Yes – The Fire Authority has a culture of working apolitically.
18	Are decisions reached promptly?	Yes
19	Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	Yes – The papers are circulated in accordance with the Local Government Acts, i.e. 5 full working days in advance of the meetings.
20	Does the committee have the benefit of attendance of appropriate officers at its meetings?	Yes – The Assistant Chief Fire Officer, Treasurer and/or Principal Accountant (s151 officer and/or deputy) and Head of Performance and Risk attend the meetings and the reports are presented by the officers, who have written them. The Committee may also request other officers to attend, if required.
Training		
21	Is induction training provided to members?	Yes
22	Is more advanced training available as required?	Yes – This depends upon the outcome of the Annual Review (see response 13 above).
Administration		
23	Does the authority's s151 officer or deputy attend all meetings?	Yes
24	Are the key officers available to support the committee?	Yes – See response 20 above. In addition the Corporate Services Manager and Management Support Officer provide administrative support and advice on procedural matters.

Audit and Performance Management Committee Terms of Reference

To monitor the Fire Authority's involvement in the West Midlands Regional Management Board and implementation of the Board's objectives

To monitor implementation of the Comprehensive Performance Assessment Improvement Plan

To monitor implementation of Best Value Reviews

To monitor and review the Brigade Service Objectives

To monitor Brigade performance indicators

To consider customer relations issues and monitor complaints and compliments

To review the effectiveness of the system on internal control

To monitor corporate governance issues and specifically the Authority's Code of Corporate Governance

To approve the contents of the Annual Report

To investigate and report upon any other matter specifically referred to the Committee by the Authority

Audit Functions

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.

To approve, but not direct, the internal audit strategy and audit plan and monitor performance against the plan

To review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary

To consider the reports of internal and external audit and inspection agencies and monitor management action in response to the issues raised



To consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and to seek assurances that action is being taken on risk related issues identified by auditors and inspectors.

To ensure that there are effective relationships between external and internal audit and other relevant bodies and that the value of the audit process is actively promoted.



Appendix A

AUDIT COMMITTEE

Purpose

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated internal control environment, independent scrutiny of the authority's 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 Audit Committee must remain apolitical. It must display unbiased attitudes, treating auditors, the executive and management equally. It also has the ability to challenge the Leader and Chief Executive when required. The Audit Committee will comprise

- 5 Members in accordance with the political balance rules being 3 Conservative, 1 Labour and 1 Liberal Democrat who may be represented by designated substitutes in their absence. Any designated substitute must be appropriately trained. None of the members should be members of the Executive or Scrutiny Chairs.
- The Director of Resources (Section 151 Officer) and the Head of Audit and Consultancy will attend every meeting.

Other Officers and the External Auditor will be invited to attend as and when required.

Meetings

The Audit Committee will meet at least four times a year. The Chair of the Audit Committee may convene additional meetings as he/she deems necessary.

The Chief Executive, the Director of Resources or the Head of Internal Audit and Consultancy may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

The Head of Legal and Democratic Services is responsible for ensuring the Audit Committee is serviced with all necessary papers and support to enable it to fully discharge its responsibilities.

External Audit should attend the Audit Committee at least twice a year to report on the findings of the audit of the County Council.

Reporting

An annual report from the Audit Committee will be considered by Council at its September meeting each year. Audit Committee will raise any issues of concern to Cabinet.

Core Functions

The Audit Committee's core functions will be to:

- Approve, but not direct, the internal audit strategy and audit plan and to monitor performance against the plan.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the Head of Audit and Consultancy.
- Consider the reports of external audit and other inspection agencies.
- Ensure that there are effective relationships between external and internal audit, and other relevant bodies and that the value of the audit process is actively promoted.
- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated counter-fraud and anti-corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements, including the Annual Governance Statement (AGS) properly reflect the risk environment and any actions required to improve it.
- Review the financial statements, external auditor's opinion and reports to members on the Statement of Accounts and monitor management action in response to the issues raised by external audit.

In carrying out the core functions the Audit Committee will consider, review and as appropriate approve:-

- Review annually the Terms of Reference for the Audit Committee to ensure they are current and up-to-date and make recommendations for change to Full Council for consideration.
- Any proposals for the revision of the Terms of Reference of Internal Audit.
- The Head of Internal Audit's Annual Report and opinion on the authority's framework of Internal Controls.

- Half yearly reports on the work completed by Internal Audit and the progress made by directorates in implementing recommended actions.
- Revisions to the annual audit plan as advised by the Head of Audit and Consultancy and agreed by the Section 151 Officer.
- The authority's Statement of Accounts before submission to full Council.
- A report on the review of the adequacy of the Council's Corporate Governance arrangements.
- A report on the effectiveness of the system of Internal Audit.
- A report on the review of the adequacy of the Council's risk management arrangements.
- The authority's Annual Governance Statement.
- The External Auditor's Work Plan, including comments on the scope and depth of external audit work and to ensure it gives value for money.
- The External Auditor's Management Letter and Use of Resources Judgement.
- The Annual Governance Report from the External Auditor following completion of the annual audit of the Accounts.
- Reports on any joint projects undertaken by Internal and External Audit.
- Reports on Internal Audit investigations including frauds and consideration of recommendations for strengthening internal controls.
- The annual review and re-affirmation of the authority's Counter Fraud and Anti-Corruption strategy.
- The authority's strategy to ensure on-going training and awareness of all staff regarding Counter Fraud and Anti-Corruption measures.
- A bi-annual report on the continued adequacy and effectiveness of, and management compliance with, the authority's Financial Rules..

- Any issues within the remit of the Audit Committee referred to it by the Chief Executive, the Director of Resources, Monitoring Officer or any Council body for determination.

Powers of the Audit Panel

The Panel will have no delegated powers, but can require Officers to attend.

Audit Committee Competency Framework

- a) All Members of the Audit Committee should have, or acquire as soon as possible after appointment:-
- An understanding of the objectives and current significant issues facing the council.
 - An understanding of the council's structure including key relationships with external partner organisations.
 - An understanding of any relevant legislation or other rules governing the operation of the council.
 - A broad understanding of the local government environment, in particular its accountability structures and current, major initiatives.
- b) CIPFA recommends that the Audit Committee should corporately possess an appropriate level (note 1) of knowledge/skills/experience in:-
- Finance.
 - Risk Management.
 - Audit.
 - The authority's governance and regulatory frameworks.
 - An understanding of the wider governance environment in which the council operates and the accountability structures within that environment.

Reviewed and updated 29 November 2007.

¹ At least one member of the Audit Committee should have a specialism in one of these areas
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