
Report to	Scrutiny Board (1) Council	30th August, 2006 19th September, 2006
Report of	Head of Corporate Policy	
Title	Audit Committee Terms of Reference and Appointment of Audit Sub-Group	

1 Purpose of the Report

1.1 To propose:-

- a) revised terms of reference for Scrutiny Board (1) in relation to its audit responsibilities.
- b) the establishment of a Sub-Group of Scrutiny Board (1), to carry out the Board's audit responsibilities.

2 Recommendations

2.1 Scrutiny Board (1) is recommended:

- a) to agree the revised terms of reference in relation to its audit responsibilities, shown in Appendix 2 to this report.
- b) to establish an Audit Sub-Group for 2006/2007, as proposed in paragraph 4 below, to carry out the Board's audit responsibilities as set out in the revised terms of reference, and to review the arrangements at the end of the Municipal Year.
- c) to appoint the Chair, Deputy Chair, members and substitute members of the Sub-Group.
- d) not to appoint co-opted members for 2006/2007, but to review this issue as part of the overall review mentioned in a) above.
- e) to require all Sub-Group members and substitute members to undertake audit training.

2.2 Council is asked to approve the revised terms of reference for Scrutiny Board (1) shown in Appendix 2.

3 Information/Background

- 3.1 The Audit Commission and the Chartered Institute of Public Finance and Accountancy (CIPFA) have both highlighted the need for local authorities to place more emphasis on audit work, in order to improve and strengthen procedures and operations in: -
- Financial Management
 - Financial Reporting
 - Financial Standing
 - Internal Control
 - Value for Money
- 3.2 Scrutiny Board (1) is currently designated as the Council's Audit Committee. Its terms of reference for this area of work, which were agreed some years ago, before the latest CIPFA guidance was issued, are attached as Appendix 1.

4 Proposal and Other Option(s) to be Considered

- 4.1 It is proposed that Scrutiny Board (1) adopt revised terms of reference for its audit work, which take into account the latest guidance from CIPFA. These are attached as Appendix 2. The current terms of reference are included in the Council's Constitution and therefore the revised version will need to be approved by the City Council.
- 4.2 It is further proposed that, in order to allow more time to be devoted to this aspect of work in future, and to enable the Board to concentrate on other areas of work within its remit, the Board establish a Sub-Group to consider audit issues, as follows:-

(a) Membership

Six elected members - 3 from the Conservative Group, 2 from the Labour Group and 1 from the Minority Groups (the Sub-Group must be politically balanced).

Three named substitute elected members (1 from the Conservative Group, 1 from the Labour Group and 1 from the Minority Groups) so that if a Sub-Group Member were unable to attend a meeting he/she could nominate a substitute member to attend. Although it is expected that this arrangement would be rarely used, it would nevertheless enable a wider group of elected members to gain knowledge of audit issues.

Members must not be Cabinet Members and need not be members of Scrutiny Board (1). It is proposed that the Chair be a member of Scrutiny Board (1), but that other members be appointed on the basis of their interest in audit issues.

Members may wish at some point to consider appointing to the Sub-Group co-opted members from outside the City Council (perhaps one from the public sector and one from the private sector). Officers recommend that this should not be done this year, but that the new arrangements be given time to "bed down" and that this be considered in future years.

(b) Chair and Deputy Chair

Scrutiny Board (1) will appoint the Chair and Deputy Chair of the Sub-Group.

(b) Quorum

The quorum of the Sub-Group will be 3 members.

(c) Terms of Reference (including Annual Report)

The Sub-Group will discharge the responsibilities of Scrutiny Board (1), as set out in the terms of reference shown in Appendix 2.

The requirement set out in paragraph 15 of those terms of reference (annual report to the Council) will be met by the Sub-Group submitting to Scrutiny Board (1) an annual report on its work, for endorsement and onward submission to the Council.

(d) Training

It is very important that those members appointed to the Sub-Group, and the substitute members, receive appropriate training for their role. They will therefore be required to undertake such training.

(e) Frequency of meetings

The Sub-Group will meet at least four times a year and meetings will be subject to the usual Access to Information requirements.

(f) Other meetings

The Sub-Group may meet privately (i.e. informally and with no other employees present) with the External Auditors and the Internal Audit Manager, but this would be the exception.

(g) Minutes

The Sub-Group will submit its minutes to Scrutiny Board (1) for information.

4.3 As these are new arrangements, it is proposed that they be reviewed at the end of the Municipal Year, to see how effective they have been and whether any changes need to be made.

5 Other specific implications

5.1

	Implications (See below)	No Implications
Best Value		✓
Children and Young People		✓
Comparable Benchmark Data		✓
Corporate Parenting		✓
Coventry Community Plan		✓
Crime and Disorder		✓
Equal Opportunities		✓
Finance		✓
Health and Safety		✓
Human Resources		✓
Human Rights Act		✓
Impact on Partner Organisations		✓

	Implications (See below)	No Implications
Information and Communications Technology		✓
Legal Implications		✓
Neighbourhood Management		✓
Property Implications		✓
Race Equality Scheme		✓
Risk Management		✓
Sustainable Development		✓
Trade Union Consultation		✓
Voluntary Sector – The Coventry Compact		✓

	Yes	No
Key Decision		✓
Scrutiny Consideration (if yes, which Scrutiny meeting and date)	✓ Scrutiny Board 1 30th August, 2006	
Council Consideration (if yes, date of Council meeting)	✓ 19th September, 2006	

List of background papers

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Papers open to Public Inspection

Description of paper

CIPFA publication – "Audit Committees –
Practical Guidance for Local Authorities"

Location

Room 23, Council House

css/wpdocs/scrutiny 2006-7/sb1/audit sub + council 06

APPENDIX 1

AUDIT COMMITTEE – CURRENT TERMS OF REFERENCE

The terms of reference of the Scrutiny Board whose responsibilities include scrutinising the financial resources of the City Council and which therefore carries out the overview and scrutiny of the audit function will be:-

(i) To carry out responsibilities appropriate to an Audit Committee, including those defined by the Audit Commission, to ensure good stewardship of the Council's resources, while respecting the need for decisions to be taken by the Executive (that is, Cabinet and Cabinet Members). In particular to:-

- Review the annual and strategic audit plans, and recommend appropriate actions to Cabinet;
- Review the adequacy of internal controls;
- Review the adequacy of policies and practices to ensure compliance with statutory and other guidance;
- Review Internal Audit's progress against the audit plan and consider Internal Audit performance measures;
- Receive and consider a summary of internal audit work undertaken since the last meeting, and the current position.

Specifically, this will include consideration of statistical information on the departmental responses to audit reports and activity. The Board will address any evident problems, seeking explanations and information from employees and elected Members as appropriate, with the support of the Chief Internal Auditor, the Director of Finance and ICT, and the Director of Legal and Democratic Services and other employees as appropriate.

- Monitor the proportion of key recommendations implemented since the previous meeting;
- Consider all external audit reports, and make appropriate recommendations for action to Cabinet Members, Cabinet and the Council;
- Review, discuss and comment on the external audit plan, and make recommendations to Cabinet (who are responsible for taking decisions relating to the plan).
- Report annually to full Council on its work as an Audit Committee.

(ii) To receive monitoring reports on Internal Audit activity from the Chief Internal Auditor four times each year, and to receive reports at other times on issues that merit attention by the Board.

In accordance with the management decision to follow best practice in whistleblowing, the Chief Internal Auditor may, if she/he considers it necessary, report to any member of the Board, any Cabinet Member, any Member of Scrutiny Co-ordination Committee, or any member of the Management Board.

(iii) The Council's external auditor shall have the right to attend meetings of the Board when they are acting as an audit committee, and to brief the Chair of the Board informally on relevant matters.

- (iv) Each member of the Board shall have the right to arrange private meetings with the Council's external auditor, with no employees present.
- (v) When the Board exercise their authority to require the attendance of any elected Member or employee of the authority, the sessions will be treated as private business if the contents of the discussion to be held merit this.
- (vi) To contribute towards making the Council, its political management arrangements and departments more responsive to the audit function.
- (vii) To promote internal control by the systematic appraisal of the Council's internal control mechanisms, by the development of an anti-fraud culture, by the review of financial procedures, and by demonstrating the independence of the Internal Audit function. The Board will do this by making recommendations to Cabinet and Cabinet Members on actions to be taken to develop the culture and systems.
- (viii) To be responsible for focussing audit resources by reviewing the audit plans, making recommendations to Cabinet in relation to these plans, and monitoring delivery of the audit service.
- (ix) To monitor both internal and external audit performance by ensuring auditor/employee collaboration within the agreed timescales, by securing the timely preparation of and response to audit reports, by ensuring the implementation of audit recommendations and by monitoring the completion of the annual accounts.
- (x) To review compliance with the relevant corporate governance policies, co-ordinating their work as necessary with the Standards Committee (which has responsibility for standards and codes of conduct for the Council, its members and employees).
- (xi) To ensure that they act within the policies and strategies of the authority.
- (xii) To routinely invite the Cabinet Member whose portfolio includes resources, the Director of Finance and ICT and the Director of Legal and Democratic Services to attend the Board for business during which they act as an Audit Committee.

APPENDIX 2

AUDIT COMMITTEE – PROPOSED TERMS OF REFERENCE

Audit Activities

1. To consider the Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activities (actual and proposed) and the level of assurance given within the Statement on the System of Internal Control incorporated in the Annual Accounts.
2. To consider summaries of specific internal audit reports as requested.
3. To consider reports dealing with the management and performance of internal audit.
4. To consider a report from the Head of Internal Audit regarding recommendations contained in Internal and External Audit reports that have not been implemented within agreed timescales.
5. To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
6. To consider specific reports as agreed with the External Auditor.
7. To comment on the scope and depth of external audit work and to ensure that it gives value for money.

Regulatory Framework

8. To maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations.
9. To review any relevant issue referred to it by the Chief Executive, the Director of Finance and ICT or the Monitoring Officer.
10. To monitor the Executive's effective development and operation of risk management.
11. To monitor Council policies on "whistle blowing" and the anti-fraud and anti-corruption strategy.
12. To consider the Statement of Internal Control, prior to its consideration by the Executive.
13. To consider the Council's compliance with its own and other published financial standards and controls.

Accounts

14. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the City Council's Accounts.

General

15. To report annually on its work to the Council.