

## AUDIT COMMITTEE

28 MARCH 2018

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## AUDIT COMMITTEE WORK PROGRAMME

### Report of the Chief Internal Auditor

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#### **Purpose of report**

The purpose of this report is to propose an updated programme of core business for the Audit Committee for 2018/19, in line with its Terms of Reference as set out in the Council's Constitution.

#### **Recommendations**

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

- 1) Agrees the proposed 'core business' work programme set out within the report, for 2018/19;**
- 2) Notes that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year; and**
- 3) Notes that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way.**

#### **Link to Corporate Plan**

The work of the Audit Committee contributes to the overall achievement of the Council's Corporate Plan. In particular it supports the Council in its aim to be "efficient, open and work for everyone".

## **Key issues**

1. An Audit Committee work programme is developed annually to drive the frequency and duration of meetings, ensuring the Committee receive adequate coverage of assurance reports whilst maintaining an appropriate focus on business concerns and minimising the resource requirements in their preparation and presentation.
2. The work programme is also useful to officers in planning, monitoring and managing reporting throughout the year.
3. Accordingly, the 2017/18 work programme has been reviewed to identify a proposed updated work programme for 2018/19.
4. This updated programme reflects known changes in service delivery; ensures that legal requirements relating to governance, risk and control obligations can be met; and aims to ensure that the Audit Committee receives information at the optimum times during the year to properly perform its role as set out in the Constitution and its Terms of Reference.

## **Background**

1. The core programme of work for the Audit Committee covers its main areas of responsibility as set out in its Terms of Reference agreed in the Council's Constitution. This work programme aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently, strengthening the Council's overall governance arrangements, and to highlight which reports are planned for presentation to each meeting throughout the financial year.
2. The work programme recognises that it is also necessary to update the Audit Committee on an ad-hoc basis, as relevant and topical areas arise during the year.
3. For several years, the work programme has proved very helpful in planning, monitoring and managing reporting to the Audit Committee and, accordingly, has been reviewed to identify a proposed updated work programme for 2018/19, set out below.

## **Constitution and Terms of Reference**

4. The Audit Committee's Terms of Reference reflect the good practice previously recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA); new guidance from CIPFA is expected imminently, and once published, the proposed work programme will be compared against this with results reported to a future meeting off Audit Committee. The Terms of Reference agreed by the Council on 24 May 2017 and set out in the Council's Constitution identify a number of clear

roles for the Committee to discharge throughout the course of the year. Some aspects of the Committee's business are time-bound in nature (e.g. relating to the Council's Accounts, or agreeing future plans of work), whilst other items can reasonably be considered at any point during the year allowing some flexibility in planning the work programme of the Committee. The Committee's remit as agreed at Full Council is as follows:

**Statement of Purpose:**

- (1) Our audit committee is a key component of Northumberland County 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.
- (2) The purpose of our audit committee is to provide independent assurance to those charged with governance of the adequacy of the risk management framework and the internal control environment. It provides independent review of Northumberland County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

**Terms of Reference:**

**Governance, risk and control**

- (1) To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- (2) To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, 5 taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- (3) To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- (4) To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- (5) To monitor the effective development and operation of risk management in the Council.
- (6) To monitor progress in addressing risk-related issues reported to the Committee.
- (7) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

- (8) To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- (9) To monitor the counter-fraud strategy, actions and resources.

### **Internal audit**

- (1) To approve the internal audit charter.
- (2) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- (3) To approve the risk-based internal audit plan, 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.
- (4) To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- (5) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- (6) To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
  - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local 6 Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- (7) To consider the head of internal audit's annual report: a) The statement of the level of conformance with the 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. b) 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.
- (8) To consider summaries of specific internal audit reports as requested.
- (9) 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.

- (10) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- (11) 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.
- (12) To support the development of effective communication with the head of internal audit.

### **External audit**

- (1) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- (2) To consider specific reports as agreed with the external auditor.
- (3) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (4) To commission work from internal and external audit.
- (5) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **Financial reporting**

- (1) 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.
- (2) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Accountability arrangements**

- (1) 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.
  - (2) To report to full Council on a regular basis on the Committee's performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose.
5. In respect of each of these key areas of work, the Terms of Reference make clear that the Audit Committee has a key role in assessing whether suitable and appropriate action is being taken in respect of governance issues and the control environment. The Terms of Reference also require the Audit Committee to promote effective relationships within the organisation on matters of governance and internal control, and between the Council and external audit and other

inspection agencies, so that the value of the audit and risk management process is actively promoted.

6. In addition to the responsibilities set out in the Constitution, the Audit Committee also receives reports relating to the Council's treasury management operations.

### Identification of Core Business Areas

7. The responsibilities set out above, and codified in the Council's Constitution, can reasonably be expected to form the basis of the core business of the Audit Committee. The work programme is prepared in consultation with lead report authors within the Council, and the external auditor, and based upon the Committee's responsibilities as set out in the Constitution.
8. This work programme is reviewed annually with report authors to ensure that reports are scheduled to reach the Audit Committee at the optimum time during the year, when it would make best sense for the Committee to receive certain key items of business.

### Proposed Annual Work Programme

9. As a result of this analysis and consultation with the Chair of Audit Committee, the following updated programme of the core business of the Committee for 2018/19 is proposed. This sets out the suggested timing and frequency of reports in the coming year and ensures that the responsibilities defined in the Constitution can be met. The proposed programme will help to ensure that the Committee continues to receive necessary information at the right time during the year.

Month	Item of Business
May 2018	<p><u>Internal Audit &amp; Risk Management</u></p> <ul style="list-style-type: none"> <li>• Head of Internal Audit Annual Report and Opinion on the Council's Control Environment</li> <li>• Key Outcomes From Internal Audit Assignments</li> <li>• Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan from Internal Audit)</li> <li>• Risk Management Update</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>• Annual Accounts Planning Report</li> <li>• Annual Accounts Pension Fund Planning Report</li> </ul> <p><u>Education and Safeguarding Performance</u></p> <ul style="list-style-type: none"> <li>• Review of External Inspection Reports</li> </ul>

Month	Item of Business
July 2018	<p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> <li>• NCC Annual Accounts (including Annual Governance Statement)</li> <li>• Pension Fund Accounts</li> <li>• Annual Treasury Management (year end) Report</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>• ISA260 Annual Accounts</li> <li>• ISA260 Pension Fund Accounts</li> </ul>
September 2018	<p><u>Counter Fraud Team</u></p> <ul style="list-style-type: none"> <li>• Counter Fraud Annual Report</li> </ul>
November 2018	<p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> <li>• Treasury Management In-year Update Report</li> </ul> <p><u>Internal Audit &amp; Risk Management</u></p> <ul style="list-style-type: none"> <li>• Key Outcomes from Internal Audit Assignments</li> <li>• Strategic Audit Plan Monitoring Report</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>• Annual Audit Letter</li> </ul> <p><u>Education and Safeguarding Performance</u></p> <ul style="list-style-type: none"> <li>• Review of External Inspection Reports</li> </ul>
January 2019	<p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> <li>• Treasury Management Forward Strategy 2019/20</li> <li>• Accounting Policies</li> </ul> <p><u>Internal Audit &amp; Risk Management</u></p> <ul style="list-style-type: none"> <li>• Approach to preparing the Strategic Audit Plan 2019/20</li> <li>• Risk Management Update Report</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>• Certification of Claims &amp; Returns (Annual Report)</li> <li>• Annual Accounts Planning Report</li> </ul> <p><u>Counter Fraud Team:</u></p> <ul style="list-style-type: none"> <li>• Counter Fraud update</li> </ul>
March 2019	<p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement</li> </ul> <p><u>Internal Audit &amp; Risk Management</u></p> <ul style="list-style-type: none"> <li>• Strategic Audit Plan (to approve the plan for the forthcoming year)</li> <li>• Annual Audit Committee Work Programme</li> <li>• Annual Review of Audit Committee Effectiveness</li> </ul>

10. The work programme should be treated as a helpful guide, and it may be necessary to alter or amend the proposed timing during the year as work progresses. Where this is the case, the relevant report author will be responsible for informing the Chair of the Audit Committee, and Democratic Services.

### Implications

<b>Policy</b>	The role of Audit Committee is set out in the Council's Constitution and the Audit Committee's Terms of Reference.
<b>Finance and value for money</b>	Through its review of a range of audit, accounting and governance related items, the Audit Committee assesses the Council's use of financial resources and value for money.
<b>Legal</b>	The work of Audit Committee is undertaken in accordance with the Accounts and Audit Regulations 2015.
<b>Procurement</b>	None
<b>Human Resources</b>	There are no human resources implications arising directly from this report.
<b>Property</b>	There are no property implications arising directly from this report.
<b>Equalities</b> (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/> <input type="checkbox"/>	An equalities impact assessment is not applicable to this report.
<b>Risk Assessment</b>	This report refreshes the work programme of the Committee, mitigating the risk that the frequency and timing of some reports may not be optimised.
<b>Crime &amp; Disorder</b>	There are no crime and disorder issues directly arising from this report.
<b>Customer Consideration</b>	There are no direct customer considerations arising from this report.
<b>Carbon reduction</b>	There are no carbon reduction issues directly arising from this report.
<b>Wards</b>	All



## **Consultation**

The Chair of Audit Committee and report authors have been consulted in developing the proposed work programme.

## **Background Papers**

Reports to Audit Committee:

- “Audit Committee Work Programme”, 26 July 2017;
- “Changes to the Political Management System and Decision Making Process”, 24 May 2017.
- Northumberland County Council Constitution.

## **Reports sign off**

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Portfolio Holder(s)	N/A

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