

### **Designation of the County Council's Audit Committee as Group Audit Committee for all entities within Northumberland County Council's Accounting Group Boundary**

It is proposed that the following Terms of Reference will be adopted and fulfilled by Northumberland County Council's Audit Committee, to discharge the duties of group (parent) audit committee for all entities within the County Council's accounting group boundary:

#### **1. GROUP AUDIT COMMITTEE**

##### **1.1 Purpose and Role**

- (a) Northumberland County Council's Audit Committee, as designated Group Audit Committee for all entities within the County Council's accounting group boundary, is charged with ensuring that Northumberland County Council can gain the assurance it needs on governance, risk management, the control environment, the integrity of the financial statements and financial viability across all entities within the group. The role of the Group Audit Committee is to maintain governance oversight in respect of all group entities. This includes the monitoring of regulatory changes and recommendations for improvement in relation to:
- financial reporting;
  - external audit;
  - internal control, including health and safety compliance;
  - internal audit;
  - high level risk and control framework, including assets and liabilities framework;
  - fraud awareness, including probity policies;
  - treasury policy and management, including loan covenant compliance.
- (b) This role of the Group Audit Committee will be disclosed as part of the publication of the annual financial statements for all entities within the Group.

##### **1.2 Membership and Constitution**

- (a) Northumberland County Council's Audit Committee is a committee of full Council. The terms of reference and responsibilities for Northumberland County Council's Audit Committee agreed by full Council and codified in the Constitution extend to all subsidiaries in the County Council's group.
- (b) The Audit Committee comprises an elected member Chair, seven additional elected members of the Committee, and two co-opted members appointed from the local community following a competitive recruitment process.

- (c) It is expected that the Executive Director (Finance) and the Service Director (Corporate Assurance) will attend all meetings of Northumberland County Council's Audit Committee when that Committee is discharging the functions of the Group Audit Committee. The Committee may require the attendance of other members of the Executive Team and other senior staff from time to time, when discharging its role as Group Audit Committee.
- (d) In line with good practice the Chief Executive and Leader of the County Council may attend meetings of the Committee to discuss matters relating to group entities if appropriate, by invitation from the Chair of the Audit Committee.
- (e) Internal and external auditors for all entities within the group are required to attend committee meetings at the Committee's request, when matters relating to Group governance are being considered.
- (f) The Chair of the Audit Committee may require any person in attendance at a meeting to leave the meeting if necessary in relation to one or more agenda items when discharging the functions of Group Audit Committee.

### 1.3 Objectives

The responsibilities of the Group Audit Committee in relation to each aspect of its role are defined below. It is expected that except for dormant entities within the Group (as reported and recorded formally at Companies House) the Group Audit Committee will undertake the following duties in respect of all group entities:

#### 1.3.1 Financial reporting

- (a) To review and, if appropriate, approve the Group Accounts, focusing particularly on:
  - any changes in accounting policies and practice;
  - significant financial reporting judgements;
  - material adjustments resulting from the External Audit;
  - the going concern assumption;
  - compliance with accounting standards and best practice;
  - compliance with any regulatory or legal requirements;
  - monitoring the integrity of all formal announcements relating to financial performance as appropriate, reviewing significant financial reporting judgements contained in them;
  - ensuring that all financial reports to external parties are balanced and fair, and conform with accounting and other regulatory requirements and standards;
  - confirming the outcome of the external audit and its contribution to the integrity of the financial reporting, including that there are no outstanding areas of disagreement between management and the external auditors; and

- learning from the external auditor of any principal matters of concern.
- (b) To monitor the financial reporting process and submit recommendations or proposals to ensure its integrity.

### 1.3.2 External Audit

- (a) to monitor and review the independence, objectivity and effectiveness of the external auditors appointed to group entities, their performance and the standard of their work, taking into consideration relevant UK professional and regulatory requirements; to monitor the statutory audit of the annual and consolidated accounts;
- (b) to consider whether the Group is obtaining value for money from its external auditors;
- (c) to oversee the reappointment or otherwise of the external auditors, highlighting any comments or concerns to the Chief Executive as required;
- (d) to approve the remuneration and terms of engagement of the external auditors;
- (e) to approve, monitor and review policy on the engagement of the external auditors to supply additional non-audit services, taking into account relevant ethical and professional guidance;
- (f) to maintain oversight over the scope of work via the annual engagement letter;
- (g) to maintain oversight of the external audit management letter or any other reports issued to group entities by their external auditor;
- (h) to monitor the progress of the implementation of agreed recommendations by group entities.

### 1.3.3. Internal Control

- (a) to maintain oversight on whether there is confidence that there is a sufficient and systematic review of the internal control arrangements within the Group, including whether assurances in this regard are made to an appropriate committee or officer of the County Council;
- (b) to maintain oversight on whether any significant weaknesses identified are dealt with and reported to an appropriate committee or officer of the County Council;
- (c) to review and approve, on a biennial basis, the Group Audit Policy;
- (d) to monitor any instances of fraud within group entities

- (e) to commission special investigations into matters of particular concern relating to internal control within group entities;
- (f) to learn from the internal and external auditors of any major audit findings within group entities, and to advise thereon;
- (g) to receive an annual report on compliance with all Health and Safety requirements from each entity within the Group; and
- (h) report any recommendations relating to Group activities to the County Council's Chief Executive and / or to Cabinet as appropriate.

### 1.3.4 Internal Audit

- (a) to ensure that each entity within the Group has appropriate internal audit arrangements;
- (b) to approve the nature and scope of such arrangements for each entity, as documented in the Group Audit Policy, and to monitor and review the effectiveness of these arrangements;
- (c) to review the planned programme of work of the internal auditors for each entity within the group;
- (d) to consider a summary of the issues and management responses presented within internal audit reports and monitor progress made by group entities against actions, to ensure that management reacts appropriately to implement any recommendations arising from the reports.

### 1.3.5 High Level Risk & Control Framework

- (a) to maintain oversight of the risk management arrangements in place within each group entity, and whether assurance sources indicate that an effective internal controls framework is embedded as part of the culture of each group organisation;
- (b) to seek assurance that there is a rigorous process for the identification, classification and management of risks by each group entity;
- (c) to report to the County Council's Chief Executive or Cabinet any risks that Audit Committee consider are of major concern;
- (d) to seek assurance that each group entity has a Business Continuity Plan which is regularly tested;

- (e) to seek assurance that each entity within the Group is maintaining an Assets and Liabilities Register;
- (f) to seek assurance that an assurance mapping mechanism for linking assurances from various sources to the risk that threaten the achievement of an organisation's outcomes and objectives is in place.

### 1.3.6 Fraud Awareness

- (a) The County Council's Audit Committee when acting as Group Audit Committee will review the effectiveness of fraud awareness issues throughout the Group by:
  - seeking assurance that each group entity has appropriate probity policies and procedures, including on anti-fraud, anti-bribery and anti-corruption awareness, and anti-money laundering, and that these policies have been formally adopted and regularly reviewed according to the decision making procedures in place within each group entity.
  - seeking assurance that these policies have been distributed and training around the above fraud related policies and procedures provided to officers, directors and co-opted individuals associated with each entity within the group;
  - receiving, periodically, reports on fraud issues as they have affected the Group;
  - seeking assurance that each group entity has prepared a fraud response plan.

### 1.3.7 Treasury Management

- (a) The County Council's Audit Committee when discharging the role of Group Audit Committee will seek assurance that all group entities have developed a Treasury Management Policy Statement which has been agreed by the Executive Director (Resources) of the County Council.

## 1.4 Group Audit Policy

- 1.4.1 It is expected that where this complies with relevant applicable laws, entities within the Group will appoint the same External Audit and Internal Audit service provider as that appointed to Northumberland County Council.

## 1.5 Accountability

- 1.5.1 The County Council's Audit Committee, to discharge its responsibilities as Group Audit Committee, will at least once a year request from the Executive Director (Finance) an updated list of all entities which are within Northumberland County Council's accounting group boundary.

- 1.5.2 The County Council's Audit Committee, to discharge its responsibilities as Group Audit Committee, will write at the commencement of each municipal year to all entities within the Group and seek written assurance from each entity on all relevant matters within these Terms of Reference. The responses received from each entity will be reported to and considered by Committee.
- 1.5.2 This will be supplemented by Audit Committee then seeking further assurance from Internal Audit, External Audit or management within each Group entity on the responses provided by each entity as appropriate, again in line with these Terms of Reference.
- 1.5.3 Acting as Group Audit Committee, the County Council's Audit Committee may then request additional assurance work from Internal Audit or External Audit in relation to group activities covered by these Terms of Reference as appropriate.

### 1.6 Authority

- 1.6.1 Northumberland County Council's Audit Committee, when discharging these Terms of Reference as Group Audit Committee has the authority to:
- require any information to be provided to it by any part of the Group which is reasonably necessary for the discharge of its responsibilities; and
  - instruct Internal Audit in consultation with the Chief Executive, Executive Director (Finance) or Service Director (Governance), as appropriate, to take forward any tasks or actions prescribed by the Committee towards the fulfilment of the Committee's Terms of Reference.