

Appendix 1

Main changes from current Standing Orders

<b>CIPFA Practical Guidance for Local authorities – Audit Committee</b>	<b>Current Midlothian Council Standing Orders</b>	<b>Addition</b>
To review the council’s corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.	(10) - Review the Council’s Code of Corporate Governance and Annual Assurance Statement.  (11) – Review the Council’s Financial Regulations, Directives and Standing Order on Contracts and Procurement and compliance therewith, and approve changes to the Financial Directives.  (12) – Review and monitor the Council’s financial policies and compliance therewith.	Current Standing Order does not specifically mention the ‘Good Governance Framework’ CIPFA report
To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit’s opinion on the overall adequacy and effectiveness of the council’s framework of governance, risk management and control.	(10) - Review the Council’s Code of Corporate Governance and Annual Assurance Statement.	Added detail on what the audit committee should be reviewing the assurance statement against.
To consider the council’s arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.	(11) – Review the Council’s Financial Regulations, Directives and Standing Order on Contracts and Procurement and compliance therewith, and approve changes to the Financial Directives.	The current Standing Order does not specifically state that the Audit Committee’s role is to review the Council’s arrangements for Value for Money.
To monitor the progress in addressing risk-related issues reported to the committee.	(8) - Monitor the effectiveness of the Council’s arrangements for Risk Management.	Added “monitor the progress” to revised Standing Orders.
To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.	(4) – Review all Internal Audit reports submitted by the Risk and Audit Manager and consider these reports in relation to the impact on the Council’s Internal Control system and the level of	Add the requirement monitoring of implementation of agreed actions (this is already done but not included as a requirement within the Standing Order).

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	residual risk.	
To monitor the counter fraud strategy, actions and resources.	(9) – Monitor the Council’s Fraud Policies and the levels of fraud and promote counter fraud measures.	Added the requirement to monitor counter fraud actions and resources.
To approve the internal audit charter	Not specifically mentioned in current Standing Order (however this was actually approved by the Audit committee 18 June 2013 for PSIAS update).	Added requirement to approve Audit Charter.
To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.	Not specifically mentioned in current Standing Order	Added requirement to revised Standing Order.
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 sources.	(1) - Approve and monitor the three year Strategic and Annual Internal Audit Plan.	Added requirement that plan must be risk based, resource requirements and the approach to using other sources of assurance and any work required to place reliance of those sources.
To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.	(3) – Monitor the adequacy, status, independence and performance of the internal audit function.	Added requirement to make enquiries on any inappropriate scope or resource limitations.
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 Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.	(2) – Monitor the adequacy, status, independence and performance of the internal audit function.  (4) – Review all Internal Audit reports submitted by the Risk and Audit Manager and consider these reports in relation to the impact on the Council’s Internal Control system and the level of residual risk.	Added additional requirement from PSIAS code on the Quality Assurance Programme and compliance with PSIAS.  Also added section on use of external providers of Internal Audit. This is not applicable for Midlothian currently but is included in Standing Orders should such work be commissioned in the future.
To consider the head of internal audit’s annual report:	(5) – Resulting from the completion of the Annual Internal Audit Plan, receive an annual report from	Added additional requirement from PSIAS code on the Quality Assurance

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<p>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.</p> <p>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.</p>	<p>the Risk and Audit Manager on the state of the Internal Control system and make recommendations to Cabinet to resolve any major failings.</p>	<p>Programme and compliance with PSIAS.</p>
<p>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.</p>	<p>(3) – Monitor the adequacy, status, independence and performance of the internal audit function.</p>	<p>Add the requirement for an external assessment every five years and to reflect Audit Committees role in this process.</p>
<p>To support the development of effective communication with the head of internal audit.</p>		<p>Added the requirement to the revised Standing Order.</p>
<p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>	<p>(6) – Review the External Audit Strategies, Plans and reports on findings in relation to governance, internal control and financial management of the Council.</p>	<p>Added requirement to the Standing Order that external audit reports should be reviewed with regard to value for money.</p>
<p>To commission work from internal and external audit.</p>		<p>Added to Standing Order the Audit committee authority to commission work from Internal Audit / External Audit.</p>
<p>To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.</p>		<p>Added to updated Standing Order.</p>
<p>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.</p>	<p>(7) – Review the annual Audited and Published Accounts.</p>	<p>Added commentary to Standing Order in relation to the review of accounts should primarily be focussed around issues of application of accounting policy and whether there are any issues arising in the year that need to be brought to the attention of the Council.</p>
<p>To report to those charged with governance on</p>		<p>Added requirement to Standing Order for an</p>

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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.		annual report to be submitted to Council on the performance of the Audit Committee.

**Update to Standing Orders**

The CIPFA “Audit Committees – Practical Guidance for Local Authorities” provides a template for the Terms of Reference for an Audit Committee. Although many of the elements of the recommended terms of reference are included within the current standing orders, there are differences both in layout and content.

Below is a revised Terms of Reference based on the code and updated using the table above for omissions from the current standing orders.

**Suggested Terms of Reference – this is based on a template provided by CIPFA Audit Committees – Practical Guidance for Local Authorities**

**Statement of purpose**

1. The audit committee is a key component of Midlothian 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 the audit committee is to provide independent assurance to elected members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Midlothian Council’s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

**Governance, risk and control**

3. To review the council’s corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit’s opinion on the overall adequacy and effectiveness of the council’s framework of governance, risk management and control.

5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
6. To consider the council's framework of assurance and ensure that it adequately addresses the risk and priorities of the council.
7. To monitor the effective development and operation of risk management in the council.
8. To monitor progress in addressing risk-related issues reported to the committee.
9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. To review the assessment of fraud risks and potential harm to the council from fraud corruption.
11. To monitor the counter-fraud strategy, actions and resources.
12. To monitor controls operating over Treasury Management and the Council's approach to establishing ethical standards.

#### **Internal audit**

13. To approve the internal audit charter.
14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
15. To approve the risk-based internal audit plan, including internal audit's resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
16. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
17. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitation.
18. 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 Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

19. 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 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.
20. To consider summaries of specific internal audit reports as requested.
21. 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.
22. 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.
23. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement.
24. To support the development of effective communication with the head of internal audit.

#### **External audit**

25. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
26. To consider specific reports as agreed with the external auditor.
27. To comment on the scope and depth of external audit work and to ensure it gives value for money.
28. To commission work from internal and external audit.
29. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

#### **Financial Reporting**

30. 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.
31. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

#### **Accountability arrangements**

32. 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.
33. 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.