

Audit Committee – Membership, Terms of Reference and Appointment of Interim Chair

Report by John Blair, Director, Corporate Resources

1 Purpose of Report

This report brings the Committee's attention to its Membership, Terms of Reference and the appointment of an Interim Chair.

2 Membership

On 23 May 2017, the Council agreed that membership of the Audit Committee be Councillors Baird; Hardie; Milligan; Muirhead; Parry and Smail. The Council further agreed that an independent Chair and Member of the Committee be appointed.

3 Independent Chair

Steps are being taken to recruit a suitable individual to chair meetings of the Committee but in the interim it will be necessary for the Committee to appoint a Chair. The Chair of the Committee may not be a member of the Cabinet as set out in the Council's Standing Orders.

4 Terms of Reference

The Audit Committee is responsible for the following:-

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 Chief Internal Auditor to determine if there are any inappropriate scope or resource limitation.
18. To consider reports from the Chief Internal Auditor 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 Chief Internal Auditor'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 Chief Internal Auditor 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 Chief Internal Auditor.

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.

Meetings

The Committee will normally meet six times per annum.

Quorum

The quorum for meetings of the Committee will be 3 Councillors(plus Independent Chair when appointed).

Minutes

The Minutes of the Audit Committee will be recorded by the Officer clerking the meeting and submitted to the next ordinary meeting of the Committee for approval. They will also be submitted to the Council both for information and to allow the Council to consider any recommendations contained in them. Meetings of the Audit Committee will also be audio cast subject to the exemptions contained within the Local Government (Scotland) Act 1973

4 Recommendations

The Committee is invited to:-

- (a) Note its membership and terms of reference; and
- (b) Appoint an interim Chair who is a non Cabinet member.

Date 9 June 2017

Report Contact: Janet Ritchie

Name Tel No 0131 271 3158; E-mail janet.ritchie@midlothian.gov.uk