

## PERTH AND KINROSS COUNCIL

1 MAY 2013

## AUDIT COMMITTEE ROLE &amp; REMIT

## Report by the Chief Internal Auditor

**ABSTRACT**

This report presents the proposed Role & Remit of the Audit Committee for Council approval.

**1. RECOMMENDATION**

- 1.1 The Council is asked to approve the "Role and Remit" document attached as an Appendix to this report.

**2. BACKGROUND**

- 2.1 The Audit Sub-Committee's Role and Remit document was approved in February 2005 [05/097]. It set out the Sub-Committee's purpose, within the overall terms of reference set out in the Council's Scheme of Administration. It also described the way in which its meetings were to be conducted.
- 2.2 The Role and Remit included a requirement to review the document itself at least every three years. While there have been no material changes in the role of the Sub-Committee since 2005, the document has been reviewed in light of the establishment of an Audit Committee and in the light of the recently published Public Sector Internal Audit Standards which came into effect in April 2013.
- 2.3 The Audit Committee considered a revised Role and Remit document at its meeting on the 27 March 2013 [13/146]. The changes agreed by the Committee have since been incorporated and their proposals are detailed in the Appendix to this report for consideration and approval by the Council.

**3. PROPOSALS**

- 3.1 As with the 2005 Role and Remit document, the revised Role and Remit takes into account recognised best practice, including that contained in the Guidance Note 'Audit Committee Principles in Local Authorities in Scotland' produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2004.
- 3.2 The revised document aims at a more concise style, with a clearer presentation of the Audit Committee's aims and objectives and its role in promoting the achievement of the Council's overall objectives (Appendix, Section 2).

#### **4. CONSULTATION**

- 4.1 The Depute Director (Housing & Community Care), the Head of Finance and the Chief Executive have been consulted in the preparation of this report.

#### **5. RESOURCE IMPLICATIONS**

- 5.1 There are no resource implications arising from this report.

#### **6. COUNCIL CORPORATE PLAN OBJECTIVES 2013-2018**

- 6.1 The Council's Corporate Plan 2013-2018 lays out five strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. The relevant strategic objectives in respect of this report are as follows:-

- Giving every child the best start in life;
- Developing educated, responsible and informed citizens;
- Promoting a prosperous, inclusive and sustainable economy;
- Supporting people to lead independent, healthy and active lives; and
- Creating a safe and sustainable place for future generations.

- 6.2 The Chief Executive's Service provides a range of functions for internal and front-line customers alike. These functions support the work of the whole Council by assisting them in the delivery of the Council's Corporate Objectives. As a consequence, this report does not specifically relate to one of the objectives, but assists with the delivery of all five.

#### **7. EQUALITIES ASSESSMENT**

- 7.1 An equality impact assessment needs to be carried out for functions, policies, procedures or strategies in relation to race, gender and disability and other relevant protected characteristics. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new and existing policies.

- 7.2 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Impact Assessment process (EqIA) and was assessed as not relevant for the purposes of EqIA.

#### **8. STRATEGIC ENVIRONMENTAL ASSESSMENT**

- 8.1 The proposals presented in this report were considered under the Environmental Assessment (Scotland) 2005 and the determination was made that the items summarised in this report do not require further action as they do not qualify as a plan, programme or strategy as defined by the Act.

## 9. CONCLUSION

- 9.1 This report presents the Role and Remit document for consideration and approval by the Council.

**J CLARK**  
**Chief Internal Auditor**

**Note:** No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

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**Date:** April 2013

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## 1 Introduction

- 1.1 This document describes the way in which Perth & Kinross Council's Audit Committee is intended to operate, following the principles set out in CIPFA's 'Audit Committee Principles in Local Authorities in Scotland – A Guidance Note' (2004) ['the Guidance Note']. It also draws upon CIPFA's 'Public Sector Internal Audit Standards' ['the PSIAS'].
- 1.2 It should be read in conjunction with the provisions relating to the Audit Committee contained in the Council's Scheme of Administration.
- 1.3 This document describes:
- i the Audit Committee's remit;
  - ii the nature of its membership;
  - iii the conduct of its meetings;
  - iv its role and responsibilities in respect of decision-making;
  - v its interaction with the Council's Internal Audit service;
  - vi its interaction with the appointed external auditor;
  - vii the arrangements for its approval and review.

## 2 Remit of the Audit Committee

- 2.1 The role and focus of the Audit Committee is to scrutinise, on behalf of the elected members of the Council, all aspects of the Council's control environment. It promotes and monitors improvements in the control environment. It achieves this primarily through interaction with the Council's internal and external auditors and also with Council officers.
- 2.2 The Council's control environment comprises its systems of governance, risk management and internal control. The Audit Committee's role will extend to the whole of the Council's control environment.

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- 2.4 The control environment exists in order to ensure:
- i the clarity, monitoring and achievement of the Council's objectives;
  - ii compliance with the relevant laws, regulations, policies, plans and procedures;
  - iii the economical, efficient, effective and equitable use of the Council's resources;
  - iv proper financial management of the Council, including the production of published accounts;
  - v proper performance management and continuous improvement.

### 3 The Audit Committee's Membership

3.1 The Audit Committee will include seven elected members of the Council.

3.2 The Audit Committee will, on at least an annual basis, review the effectiveness of its structure in achieving its aims and objectives and may make a recommendation concerning any changes that it considers necessary.

3.3 In order to be effective, the Audit Committee requires the active involvement of its members. Audit Committee members should possess the following attributes:

- i independence of view - each member should be prepared to arrive at and express an objective point of view regardless of political affiliations;
- ii a preparedness to question and challenge management and auditors;
- iii a good understanding of the Council's control environment;
- iv sufficient technical knowledge to enable effective communication with internal and external auditors;

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- v a sense of proportion, i.e. the ability to distinguish those matters that may have a significant impact on the achievement of the Council's objectives;
- vi the confidence and respect of other members in exercising the Audit Committee's role on their behalf;
- vii a determination to impose a high standard of probity upon all the Council's activities.

- 3.4 It is desirable that at least one Audit Committee member has a financial background, in order to facilitate scrutiny of the External Auditor's annual report and accounts.
- 3.5 The Convener of the Audit Committee should promote open debate during meetings, in order to maximise the contribution of each member.
- 3.6 The Audit Committee will, on at least an annual basis, consider the training and development needs of its members in order to ensure that it has the full range of knowledge and skills to carry out its function effectively. It will make recommendations to the appropriate senior officers regarding the provision of suitable training and development activities and will review their effectiveness.

#### 4 Audit Committee Meetings

- 4.1 Audit Committee meetings will be conducted in a manner consistent with the guidance of the Head of Democratic Services regarding compliance with the Council's Standing Orders and Scheme of Administration.
- 4.2 Wherever possible, meetings will be timetabled sufficiently in advance to allow the effective planning of the work that supports the Audit Committee's activities. The timing of meetings will take into account the need to consider specific reports at certain times of the year, for example:
  - i Internal Audit's Strategy and annual plan;
  - ii the Chief Internal Auditor's annual report on the control environment;
  - iii the external auditor's end-of-year report and management letter.

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- 4.3 The Convener of the Audit Committee may call additional meetings of the Committee at any reasonable time, in order to deal with specific items of business. The Chief Internal Auditor and the appointed external auditor may request that such a meeting be held.
- 4.4 The Chief Internal Auditor and the Council's external auditor may place a relevant item on the agenda of any meeting of the Audit Committee.
- 4.5 The Chief Internal Auditor will be the principal professional advisor to the Audit Committee. As such, the Chief Internal Auditor is expected to attend all meetings of the Audit Committee, except in the case of reasonable absence from work. In such a case, a suitably qualified and experienced Internal Auditor will exercise the responsibilities of the Chief Internal Auditor relating to Audit Committee meetings.
- 4.6 The Audit Committee shall require the attendance at its meetings of any Council officer that it considers to be necessary. Officers attending the Audit Committee will provide such explanations or information as is necessary to enable the Audit Committee to fulfil its remit.
- 4.7 In respect of an agenda item being considered by the Committee, the Audit Committee shall require that any Council record (in whatever form) is made available to it, where it considers this to be necessary. This right will be limited only by the advice of the Head of Legal Services regarding the legality of making any such documents available.

## 5 Decision-Making

- 5.1 It is the responsibility of the Council and its senior officers to maintain the control environment by putting in place appropriate internal controls relating to the activities for which they are responsible. The Audit Committee is not an executive body, in the sense that it makes decisions that directly impact upon the control environment. It achieves its aims and objectives through independent scrutiny, challenge, persuasion and reporting.
- 5.2 Where the Audit Committee decides that action is necessary in some respect, it will normally seek to achieve this by agreement with the relevant officer. Where the Audit Committee considers it to be necessary (for example, where there has been a significant breakdown in control or where there has been a failure to implement an agreed course of action), it may, subject to the

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guidance of the Head of Democratic Services, instruct that a report be submitted to the Council, or to any Council officer or committee, providing information and/or making a recommendation for action.

## 6 Internal Audit

- 6.1 Internal Audit will normally be the principal means whereby the Audit Committee acquires information on the adequacy of the Council's control environment.
- 6.2 Internal Audit's role within the Council will be described in an 'Audit Charter' document (Internal Audit Terms of Reference). The Audit Committee will review this document and approve amendments as necessary.
- 6.3 The relationship between the Audit Committee and Internal Audit will be one of mutual assistance - Internal Audit will provide the Audit Committee with a professional opinion on the control environment; the Audit Committee will ensure that Internal Audit's work is made effective through rigorous review and follow-up of the matters brought to its attention.
- 6.4 The Chief Internal Auditor will:
- i produce an Audit Strategy and annual plan for the Audit Committee's consideration and approval;
  - ii report to the Audit Committee on Internal Audit's performance, including its progress in achieving the planned audit work;
  - iii report to the Audit Committee on the results of audit work, drawing attention to any significant weaknesses in the control environment and any unresolved issues;
  - iv report to the Audit Committee on the results of Internal Audit's 'follow-up' work, drawing attention to any significant outstanding issues;
  - v highlight to the Audit Committee where there are inappropriate restrictions placed on Internal Audit in terms of either scope or resources; and

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- v report to the Audit Committee annually in accordance with the requirements of the PSIAS, giving an opinion on the Council's control environment.

6.5 The Audit Committee will:

- i consider and approve Internal Audit's Strategy and annual plan and satisfy itself that an appropriate methodology has been followed;
- ii scrutinise Internal Audit's progress and performance;
- iii ensure that it is satisfied that all significant or unresolved issues arising from Internal Audit reports (including 'follow-up' work and the annual opinion) are being satisfactorily addressed;
- iv review and safeguard Internal Audit's operational independence in line with the PSIAS in order to ensure the impartiality of its advice to the Audit Committee.

7 External Audit

- 7.1 The Council's external auditor is appointed by the Accounts Commission, rather than by the Council itself. The appointed external auditor is, therefore, independent of the Council. The role of the Audit Committee, in connection with external audit's work, is one of liaison and co-ordination as well as scrutiny.
- 7.2 The Audit Committee will ask the Council's external auditor to present periodic work plans and will scrutinise these to ensure that there is an appropriate degree of co-ordination with the work of Internal Audit.
- 7.3 The Audit Committee will ask the Council's external auditor to present the findings arising from their work and will scrutinise and follow up the action taken in response by management, in the same manner as described for Internal Audit (6.5 above).

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- 7.4 The Audit Committee will be the appropriate forum for:
- i receiving reports relating to any significant or unresolved issues in connection with the drawing up, auditing or certifying of the Council's annual accounts, subject to a decision by the Council;
  - ii receiving the appointed external auditor's annual report to members after it has been submitted to the Council.

## 8 Approval and Review

- 8.1 The Audit Committee will review this document at least every two years. It may at any time make a recommendation to the Council regarding the approval of such changes as it considers appropriate.