

**Article 7 - The Audit Committee**

**7.01 Role**

The Audit Committee's role and functions will be to:

- (a) Review the effectiveness of the Authority's systems of internal control and risk management systems.
- (b) Oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information.
- (c) Monitor the performance and effectiveness of the internal and external audit functions within the wider regulatory context.

**A. Internal Control**

- Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and risk management.
- Understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data.
- Understand the controls and processes implemented by management to ensure the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.
- Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the internal and external auditors have been implemented by management.
- Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.
- Consider the annual draft statement on internal control and make appropriate recommendations/observations to the Executive prior to its submission to the Council's Regulators.

**B. Compliance with Law and Regulations**

- Keep under review the Council's financial regulations and contract standing orders and all other corporate directions concerning financial control.
- Receive reports on all fraud identified and any other special investigations, and action taken.
- Obtain regular updates from management and legal advice regarding compliance matters, and be satisfied that all compliance matters have been considered in preparing the financial statements.

## **C. Financial Reporting**

- Consider the annual Statement of Accounts, together with the underlying accounting policies prior to their submission for audit, and recommend their approval to the Council.
- Gain an understanding of the current areas of greatest financial risk and how these are being managed.
- Meet with management and external auditors to review the financial statements, the key accounting policies and judgements, significant accounting and reporting issues and their impact on financial reports, and the results of the audit.
- Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditor.
- Review the other sections of the Annual Report and the Statements of Accounts and consider whether the information is understandable and consistent with members' knowledge of the Authority and operations and lacks bias.

## **D. External Audit**

- Ensure that the annual audit is undertaken in compliance with statutory requirements.
- Review the external auditors' proposed audit scope and approach for the current year in the light of the Authority's present circumstances and changes in regulatory and other requirements arising from Government, Assembly or Council initiatives.
- Receive all audit reports, and the annual audit letter, issued by the external auditor, and ensure that all agreed recommendations are implemented.
- Review on an annual basis the performance of external audit and co-ordinate any feed back requested from the Audit Commission.
- Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.
- Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately. Ensure the auditors have access to the chair of the audit committee when required.

## **E. Internal Audit**

- Promote the role of internal audit within the Council, as a key element of its control environment.
- Review, approve and monitor the delivery of the internal audit plan and the risk assessment exercise on which the plan is based, and ensure it considers changes arising from Government, Assembly or Council initiatives.

- Receive summaries of all internal audit reports issued, highlighting key recommendations and recommendations of reports with corporate control implications.
- Monitor the implementation of agreed recommendations contained within internal audit reports.
- Ensure that no management restrictions are placed in the scope of audit's examinations.
- Meet separately with the Head of Internal Audit to discuss any matters that the committee or internal auditors believe should be discussed privately.
- Keep under review the organisational structure and resource requirements of the Internal Audit Section.
- Discuss with the external auditor the standard of work of internal audit staff.
- Evaluate on an annual basis the performance and effectiveness of internal audit and its compliance with best practice.

#### **F. General**

- Request the attendance at the Committee of any Director, or the submission of a report from any Director, to provide further explanation in connection with any of the above terms of reference.
- Arbitrate in the event of any failure to agree between a Director and internal audit.
- Keep under review the joint working arrangements of the Council's internal and external auditors.
- Evaluate the committee's own performance, both of individual members and collectively, on a regular basis.

The Audit committee will keep the above terms of reference under annual review and propose any amendment to the County council.

#### **7.02 Form and Composition**

The Chair and Vice-Chair of the Audit Committee will be chosen from amongst the main opposition group(s) on the Council.

It is the express wish of the Council that there should be continuity of membership of the Audit Committee so as to build up a body of expertise and maintain a consistency of approach.

In recognising the express wish of the Council, but observing the requirements of the legislation for political balance, the Audit Committee will comprise 7 Members with the seats allocated in accordance with the legislation to the appropriate political groups. Any proposed substitution shall comply with Council Procedure Rule 22.4 and the proposed substitute shall have attended relevant training. Substitutes will only be permitted where the Audit Committee at the commencement of its meeting agrees that good reasons exist for substitution.