

Main Constitution – Proposed Changes

Section and Reference	Existing Text	Proposed amendment including revised text if appropriate
<p>Part 3.5 – Terms of Reference of Council and Committees</p> <p>C – Regulatory and Other Committees</p> <p>2 Audit Committee</p>	<p>Please see table at the end of this document (pages 4-11) – it is proposed to remove the section containing the current Terms of Reference for the Audit Committee in the Constitution, and to replace this with the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) most up to date model Terms of Reference.</p> <p>(As it is proposed that the whole existing section is removed and replaced, it is more readable to show this in the table on pages 5-12 below which gives more space to show the existing and proposed wording.)</p>	<p>Please see more detailed table below (pages 4-11)</p>
	<p>Reason for proposed change:</p> <p>This will ensure that the Authority’s Constitution, regarding the role and functions of the Audit Committee, reflects the best practice set out in CIPFA’s Position Statement on Audit Committees in Local Authorities. Although the changes do not substantially alter the duties as set out in the existing Terms of Reference, the wording in CIPFA’s model Terms of Reference clearly sets out that the Audit Committee is a key component of the Authority’s governance framework and includes a firm statement on the purpose of the Audit Committee, in addition to the core functions required to be discharged, and the characteristics of a good Audit Committee. Any external assessment of the Council’s governance arrangements is likely to assess whether CIPFA’s best practice has been adopted by NTC.</p>	

Implications of proposed change:

- **Finance and other resource implications:**

There will be no direct financial implications from the proposed change. The amendments proposed will however ensure that the best practice arrangements and model Audit Committee terms of reference recommended by CIPFA are adopted by the Authority, including those relating to Internal and External Audit.

- **Legal implications:**

None

- **Consultation/Engagement undertaken (internal and external):**

A review of the Authority's Audit Committee arrangements compared to best practice guidance from CIPFA has been undertaken during 2019/20 and reported to Audit Committee. The review engaged with stakeholders of the Audit Committee, including current elected members serving on the Committee; the Chief Executive, Head of Resources (Section 151 Officer) and the Chief Internal Auditor.

The proposed Terms of Reference include in full additional aspects of the Audit Committee's current Terms of Reference, added to the Authority's Constitution in November 2019, regarding the approval of the Authority's annual statement of accounts and associated reports. (Paragraphs 32, 33 and 34 of proposed Terms of Reference)

- **Human Rights implications:**

None

- **Equalities and Diversity implications:**

None

- **Risk Management implications:**

Should the CIPFA recommended Terms of Reference not be adopted, there is a risk that the Authority's Audit Committee arrangements will not reflect the principles and functions of an Audit Committee as set out in CIPFA's Position Statement on Audit Committees in Local Authorities. In turn this could jeopardise the assurance functions of the Committee, and any opinion on the discharge of those aspects of the Authority's assurance functions.

- **Crime and Disorder implications:**

The proposed Terms of Reference include the review of assessment of fraud risks and potential harm to the Council from fraud and corruption; and monitoring the counter fraud strategy, actions and resources.

- **Environment and Sustainability implications:**

None

AUDIT COMMITTEE: SUGGESTED CHANGES TO TERMS OF REFERENCE

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<p>Membership – 9 (7 Councillors and 2 non-voting co-opted members)</p> <p>Quorum – 3</p> <p><u>Terms of Reference</u></p> <p>The following functions are the responsibility of the Audit Committee:</p> <ol style="list-style-type: none"> 1. The Audit Committee will consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, and seek assurance from the Chief Executive, Director of Public Health, Heads of Service, Internal Audit and External Audit that action is being taken on risk related issues within the organisation. <u>(This is now covered in the new proposed terms of reference (ToR) in paragraphs 6 to 8, 10, 11 & 21)</u> 2. The Audit Committee will consider the Chief Internal Auditor's annual report and opinion; and consider a review of the effectiveness of the system of internal audit. <u>(This is now covered in the new proposed ToR in paragraphs 20 & 24)</u> 	<p>Membership – 9 (7 Councillors and 2 non-voting co-opted members)</p> <p>Quorum – 3</p> <p><u>Terms of Reference</u></p> <p>Statement of purpose</p> <ol style="list-style-type: none"> 1) Our Audit Committee is a key component of North Tyneside 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 our Audit Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of North Tyneside Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

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<p>3. The Audit Committee will consider a review of the effectiveness of the organisation’s system of internal control on an annual basis. This will include consideration of the Annual Governance Statement, and whether this has been prepared in accordance with proper practices in relation to internal control, whether this properly reflects the risk environment, and whether this includes actions required for improvement. Following that consideration, the Audit Committee will approve the Annual Governance Statement. <u>(This is now covered in the new proposed ToR in paragraphs 3,4 & 9)</u></p> <p>4. The Audit Committee will receive the following plans on an annual basis:</p> <p>a) Internal Audit’s Strategic Audit Plan, including Internal Audit’s terms of reference, strategy and resources. The Audit Committee will approve, but not direct, the Strategic Audit Plan. <u>(This is now covered in the new proposed ToR in paragraphs 13 & 15)</u></p> <p>b) The External Auditor’s Audit Service Plan, including details of any non-audit services provided. <u>(This is now partially covered in the new proposed ToR in paragraphs 27 to 29)</u></p> <p>5. The Audit Committee will receive an interim and end of year report on the progress made by Internal Audit and External Audit in achieving their respective plans of work, so that the</p>	<p>Governance, risk and control</p> <p>3) To review the Council’s corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.</p> <p>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.</p> <p>5) To consider the Council’s arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.</p> <p>6) To consider the Council’s framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p> <p>7) To monitor the effective development and operation of risk management in the Council.</p> <p>8) To monitor progress in addressing risk-related issues reported to the Committee.</p> <p>9) To consider reports on the effectiveness of internal controls</p>

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<p>Committee may monitor performance in this regard. <u>(This is now covered in the new proposed ToR in paragraphs 19, 20 & partially 27 & 28)</u></p> <p>6. The Audit Committee may suggest that Internal Audit undertakes reviews into specific areas of concern. The Chief Internal Auditor will then determine whether such work should be undertaken by Internal Audit, having regard to the nature, materiality and gravity of the matter referred, and the corresponding importance of planned work which would be delayed by attending to the matter referred. <u>(This is now covered in the new proposed ToR in paragraphs 16 & 30)</u></p> <p>7. The Audit Committee will receive external audit reports, including the Use of Resources report, Annual Audit Letter, Fee Letter, Annual Governance Report, and other external audit reports as appropriate; and the reports of other regulatory and inspection agencies where these highlight internal control and risk issues. <u>(This is now covered in the new proposed ToR in paragraphs 28 & 32 to34)</u></p> <p>8. The Audit Committee will consider the scope and depth of external audit work to ensure it gives value for money. <u>(This is now covered in the new proposed ToR in paragraph 29)</u></p> <p>9. The Audit Committee will promote effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and champion the audit process. <u>(This is now covered in the new proposed ToR in</u></p>	<p>and monitor the implementation of agreed actions.</p> <p>10)To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.</p> <p>11)To monitor the counter-fraud strategy, actions and resources.</p> <p>12)To review the governance and assurance arrangements for significant partnerships of collaborations.</p> <p>Internal audit</p> <p>13)To approve the Internal Audit charter.</p> <p>14)To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.</p> <p>15)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 other sources.</p> <p>16)To approve significant interim changes to the risk-based internal audit plan and resource requirements.</p> <p>17)To make appropriate enquiries of both management and the head of Internal Audit to determine if there are any inappropriate scope or resource limitations.</p>

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<p><u>paragraph 31)</u></p> <p>10. The Audit Committee will receive follow-up reports on the progress made by Service Areas in implementing agreed internal and external audit recommendations, in order that it may review this progress. <u>(This is now covered in the new proposed ToR in paragraph 19a)</u></p> <p>11. The Audit Committee will review the accounting policies used to compile the Authority's Statement of Accounts. <u>(This is now covered in the new proposed ToR in paragraph 32)</u></p> <p>12. The Audit Committee will review key information relating to the Authority's Statement of Accounts. <u>(This is now covered in the new proposed ToR in paragraph 32)</u></p> <p>13. The Audit Committee will review the external auditor's opinion and reports on the statement of accounts, and monitor management action in response to any issues raised in relation to the accounts by external audit. <u>(This is now covered in the new proposed ToR in paragraph 32)</u></p> <p>14. The Audit Committee will ensure it is aware of the work undertaken by other committees, so it can take account of any significant internal control issues arising from this work. <u>(This is now covered in the new proposed ToR in paragraphs 2 to 4 & 35)</u></p> <p>15. The Audit Committee will approve the annual statement of</p>	<p>18) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Chief Internal Auditor. To approve and periodically review safeguards to limit such impairments.</p> <p>19) 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:</p> <ul style="list-style-type: none"> 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. <p>20) To consider the Chief Internal Auditor's annual report:</p> <ul style="list-style-type: none"> a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local

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<p>accounts including any subsequent amendments. <u>(This is now covered in the new proposed ToR in paragraph 32)</u></p> <p>16. The Audit Committee will consider the External Auditor’s report on the audit of the annual statement of accounts (the audit completion report). <u>(This is now covered in the new proposed ToR in paragraph 33)</u></p> <p>17. The Audit Committee will receive the External Auditor’s annual audit letter. <u>(This is now covered in the new proposed ToR in paragraph 34)</u></p> <p>Information:</p> <p>1. The Audit Committee is a key component of the Authority’s corporate governance arrangements and is an important source of assurance about the organisation’s arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The main objectives of the Audit Committee are to:</p> <p>a) provide independent assurance on the effectiveness of the risk management framework and the associated control environment;</p> <p>b) provide independent examination of the organisation’s performance and how this affects the Authority’s control environment and its exposure to risk; and</p>	<p>Government Application Note and the results of the Quality Assurance and Improvement Programme that support 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>21) To consider summaries of specific internal audit reports as requested.</p> <p>22) 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.</p> <p>23) 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>24) To consider a report on the effectiveness of Internal Audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.</p>

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<p>c) oversee the financial reporting process. <u>(This is now covered in the new proposed ToR in paragraphs 1 & 2)</u></p> <p>2. Nothing in these terms of reference shall confer upon the Audit Committee the power to regulate or control the finances of the Authority, in order to ensure that section 102(3) of the Local Government Act 1972 is not contravened. <u>(This is now covered in the new proposed ToR in General Information paragraph 1)</u></p> <p>3. The two co-opted members of the Audit Committee will fulfil the roles of Chair and Deputy Chair of the Committee. The term of office for the co-opted members of the Audit Committee will be two years. The appointment of co-opted members is a matter reserved to the full Council, on the recommendation of the Chief Executive and Section 151 Officer. <u>(This is now covered in the new proposed ToR in General Information paragraph 2)</u></p> <p>4. The term of office for any appointed co-opted member can only be extended with the express approval of the full Council, on the recommendation of the Chief Executive and Section 151 Officer. Co-opted members appointed by the full Council can attend and speak at meetings of the Committee to which they are appointed but cannot vote. <u>(This is now covered in the new proposed ToR in General Information paragraph 3)</u></p>	<p>25) To provide free and unfettered access to the Audit Committee Chair for the Chief Internal Auditor, including the opportunity for a private meeting with the Committee.</p> <p>External audit</p> <p>26) To support the independence of external audit through consideration of the External Auditor’s annual assessment of its independence and review of any issues raised by PSAA or the authority’s auditor panel as appropriate.</p> <p>27) To consider the External Auditor’s annual letter, relevant reports and the report to those charged with governance.</p> <p>28) To consider specific reports as agreed with the external auditor.</p> <p>29) To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> <p>30) To commission work from internal and external audit.</p> <p>31) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.</p> <p>Financial reporting</p>

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	<p>32) To review and approve the annual statement of accounts including any subsequent amendments. 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>33) To consider the External Auditor's report on the audit of the annual statement of accounts (the audit completion report).</p> <p>34) To receive the External Auditor's annual audit letter.</p> <p>Accountability arrangements</p> <p>35) To report to the Council 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.</p> <p>36) To report to the 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.</p> <p>37) To publish an annual report on the work of the Committee.</p> <p>General Information</p>

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	<ol style="list-style-type: none"><li data-bbox="1128 320 2049 464">1) Nothing in these terms of reference shall confer upon the Audit Committee the power to regulate or control the finances of the Authority, in order to ensure that section 102(3) of the Local Government Act 1972 is not contravened.<li data-bbox="1128 504 2049 751">2) The two co-opted members of the Audit Committee will fulfil the roles of Chair and Deputy Chair of the Committee. The term of office for the co-opted members of the Audit Committee will be two years. The appointment of co-opted members is a matter reserved to the full Council, on the recommendation of the Chief Executive and Section 151 Officer.<li data-bbox="1128 799 2049 1008">3) The term of office for any appointed co-opted member can only be extended with the express approval of the full Council, on the recommendation of the Chief Executive and Section 151 Officer. Co-opted members appointed by the full Council can attend and speak at meetings of the Committee to which they are appointed but cannot vote.