

# Audit Committee Terms of Reference

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Jacinta Fru- Chief Internal Auditor



## 1 Statement of Purpose

- 1.1 The Audit Committee is a key component of Milton Keynes 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.
- 1.2 The purpose of the Audit Committee is to provide independent assurance to Cabinet and Full Council of the adequacy of the risk management framework and the internal control environment. The Committee:
  - 1.2.1 provides independent review of governance, risk management and control frameworks and oversees the financial reporting and annual governance processes
  - 1.2.2 oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place. It also oversees financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council's annual accounts are dealt with properly

## 2 Constitution and Authority

- 2.1 The Committee will be a fully constituted committee of the Council and act independently of the Authority's Executive and scrutiny functions and its membership shall not include Cabinet members
- 2.2 To help maintain its independence, the Committee has the right to meet privately with the External Auditor and the Head of Internal Audit as considered necessary.
- 2.3 The business of the Committee will be conducted apolitically
- 2.4 The membership of the Audit Committee shall comprise a minimum of 5 Members of the Council and a maximum of three co-opted non-voting members
- 2.5 The Committee will meet at least 3 times a year and ~~a quorum of three elected members~~ the quorum shall be as specified in the Council's constitution (Council Procedure Rules). ~~(including the Chair or Vice Chair) is required for decisions of the Committee to be ratified~~
- 2.6 The Committee shall:
  - 2.6.1 review matters relating to internal audit, external audit, risk management, governance, assurance statements, anti-fraud and anti-corruption arrangements as well as any other function to meet the Council's Audit Committee requirements.
  - 2.6.2 enhance and promote the profile, status and authority of the internal audit function and to demonstrate its independence.

- 2.6.3 contribute towards making the authority, its committees, and departments more responsive to the audit function.
- 2.6.4 review compliance with the relevant standards, codes of practice and corporate governance policies.
- 2.6.5 act within the Council's Constitution.

### 3 Core Functions

#### 3.1 Governance, risk and control

- 3.1.1 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 3.1.2 To review the AGS 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.
- 3.1.3 To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 3.1.4 To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- 3.1.5 To monitor the effective development and operation of risk management in the Council.
- 3.1.6 To monitor progress in addressing risk-related issues reported to the Committee.
- 3.1.7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 3.1.8 To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- 3.1.9 To monitor the counter-fraud strategy, actions and resources.
- 3.1.10 To review the governance and assurance arrangements for significant partnerships or collaborations.

#### 3.2 Internal Audit

- 3.2.1 To approve the internal audit charter.
- 3.2.2 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.

- 3.2.3 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 3.2.4 To make appropriate enquiries of both management and the Chief Internal Auditor to determine if there are any inappropriate scope or resource limitations.
- 3.2.5 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.
- 3.2.6 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 Independent external Assessment and the quality assurance improvement Plan(QAIP)
  - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 3.2.7 To consider the Chief Internal Auditor's annual report:
  - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support 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 AGS.
- 3.2.8 To consider summaries of specific internal audit reports as requested.
- 3.2.9 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.
- 3.2.10 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 3.2.11 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations.

3.2.12 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.

### 3.3 External audit

3.3.1 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.

3.3.2 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

3.3.3 To consider specific reports as agreed with the external auditor.

3.3.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.

3.3.5 To commission work from internal and external audit.

3.3.6 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### 3.4 Financial reporting

3.4.1 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.

3.4.2 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts - Accountability arrangements

3.4.3 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.

3.4.4 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.

3.4.5 To publish an annual report on the work of the committee.



**TABLE 1: DUTIES OF THE BOARD (AUDIT COMMITTEE) MANDATED BY PUBLIC SECTOR  
INTERNAL AUDIT STANDARDS.**

<b>PSIAS ref</b>	<b>Duty of the Board</b>
1000	Approve the Internal Audit charter
1110	Approve the risk-based internal audit plan, including internal audit's resource requirements, including any significant changes, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
1110	Approve decisions relating to the appointment and removal of the Chief Audit Executive.
1110	Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity.
1110	Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations.
1110	The Chair to provide feedback for the Chief Audit Executive's performance appraisal.
1111	Provide free and unfettered access to the Audit Committee Chair for the Chief Audit Executive, including the opportunity for a private meeting with the Committee.
1112	Consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Chief Audit Executive. To approve and periodically review safeguards to limit such impairments.
1130	Approve significant additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted.
1312	Contribute to the Quality Assurance and Improvement Programme and in particular, to oversee the external quality assessment of internal audit that takes place at least once every five years.
1320	Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive.
2020 & 2030	Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters.
2060	Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Board.

2600	Receive reports outlining the action taken where the chief Audit Executive 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.
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Milton Keynes City Council  
Internal Audit  
Jacinta.fru@milton-keynes.gov.uk  
01908 252228

Civic Offices  
1 Saxon Gate East  
Milton Keynes  
MK9 3EJ