
AUDIT COMMITTEE

**Responsible Cabinet Member(s) - Councillor Don Bristow,
Resource Management Portfolio**

Responsible Director(s) - Paul Wildsmith, Director of Corporate Services

Purpose of Report

1. To seek approval to the establishment of an Audit Committee.

Background

2. Audit Committees are now common across much of the public and private sector. Effective Audit Committees, enhance public trust and confidence in the financial governance of an organisation. They help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.
3. These Committees are mandatory for all health bodies and a requirement for companies listed on the stock exchange. Audit Committees are not yet compulsory for local authorities. However, they are recognised as an essential feature of good governance and are closely aligned and complementary to one of the key roles of Chief Financial Officers to 'maintain strong financial management underpinned by effective financial controls', as outlined in CIPFA's 'Statement on the Role of the Finance Director in Local Government'.
4. In addition, the expectation is that an Audit Committee will be required in order to maintain the existing score of 3 for internal control under the Comprehensive Performance Assessment CPA Use of Resources Key Lines of Enquiry as a current level 4 requirement is that 'there is an audit Committee which is constituted as a full Committee of the Council and is independent of both the executive and scrutiny functions'.

Information and Analysis

CIPFA Guidance

5. In order to assist Councils that are embarking upon setting up an Audit Committee, CIPFA has recently issued a document entitled 'Audit Committees - Practical Guidance for Local Authorities'. This Guidance covers a number of key features including the purpose of such a Committee, its core functions, features and structure and administration.
6. The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects

the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

7. The core functions of the Committee are to :-
 - (a) Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
 - (b) Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
 - (c) Be satisfied that the authority's assurance statements, including the Statement of Internal Control, properly reflect the risk environment and any actions required to improve it.
 - (d) Approve (but not direct) internal audit's strategy, plan and monitor performance.
 - (e) Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
 - (f) Receive the annual report of the head of internal audit.
 - (g) Consider the reports of external audit and inspection agencies.
 - (h) Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
 - (i) Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
8. Model Committee terms of reference to reflect these core functions are attached as an **Appendix 1**.
9. The Committee, to function effectively, should have a strong Chair, unbiased attitudes, the ability to challenge the executive when required and a membership that is balanced, objective, independent of mind and knowledgeable.
10. It should be independent of the executive and scrutiny functions, with clear right of access to other Committees of the Council and strategic functions. Membership should be restricted to one member from each of the executive and scrutiny and expressly, the Chair should not be a member of the executive.
11. A broad understanding of the financial, risk and control and corporate governance issues facing local authorities generally and the Council specifically is required but appropriate training can address such issues where necessary.
12. Guidance suggests an optimum of between three and five members for an Audit Committee and co-option, without voting rights, may well be beneficial to inject an external view whilst retaining the decision-making function for the permanent members.

13. The Committee should meet at least four times per year to fit in with audit planning and assurance statement/financial reporting cycles.

The Way Forward

14. The Council must ensure that its arrangements are in line with the CIPFA best practice guidance. Given the constraints surrounding independence from the executive and scrutiny as outlined in paragraph 10 and the optimum numbers referred to in paragraph 12, it is considered this is best achieved by establishing an Audit Committee as a fully constituted Committee of the Council, comprising three Members (two Labour group and one Conservative group Member) with the co-option of an officer, without voting rights, from another Local Authority with a finance background.
15. This Committee could function from the start of the new municipal year and deal with relevant matters from the 2006/07 financial year onwards. Issues relating to the previous financial year would follow the existing reporting arrangements, i.e. Audit Services Annual Report for 2005/06 to Cabinet and 2006 Statement of Accounts and Statement of Internal Control to Council.

Outcome of Consultation

16. No formal consultation was undertaken in production of this report.

Legal Implications

17. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

18. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Council Policy Framework

19. This report does not relate to the Council's policy framework but is a matter reserved for determination by Full Council under the provisions of the Constitution.

Recommendation

20. Council is recommended to :-
 - (a) Approve the establishment of an Audit Committee from the start of the 2006/07 municipal year, comprising two Labour Group and one Conservative Group members and an officer from another Local Authority as a co-opted non voting member.

- (b) Approve that membership of the Audit Committee be restricted to one Cabinet and one Scrutiny Member and that the Chair of the Committee not be a member of Cabinet.
- (c) Approve the Audit Committee's terms of reference attached as an Appendix 1 to the report.
- (d) Note the intention to follow existing reporting arrangements for matters relating to the 2005/06 financial year.

Reasons

21. To enhance the Council's corporate governance arrangements.

Paul Wildsmith
Director of Corporate Services

Background Papers

- (i) CIPFA Publication - Audit Committees Practical Guidance for Local Authorities.
- (ii) CIPFA Statement on the Role of the Finance Director in Local Government.

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PB

AUDIT COMMITTEE – MODEL TERMS OF REFERENCE

Audit Activity

To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

To consider summaries of specific internal audit reports as requested.

To consider reports dealing with the management and performance of the providers of internal audit services.

To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.

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

To consider specific reports as agreed with the external auditor.

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

To liaise with the Audit Commission over the appointment of the Council's external auditor.

To commission work from internal and external audit

Regulatory Framework

To maintain an overview of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

To review any issue referred to it by the Chief Executive or a director, or any council body.

To monitor the effective development and operation of risk management and corporate governance in the council.

To monitor council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the council's complaints process.

To oversee the production of the Authority's Statement on Internal Control and to recommend its adoption.

To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

To consider the Council's compliance with its own and other published standards and controls.

Accounts

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.

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