

**CIPFA GUIDANCE ON AUDIT COMMITTEES****Report By: Principal Audit Manager****Wards affected**

County-wide

**Purpose**

To advise Members on the CIPFA Guidance on Audit Committees.

**Financial Implications**

None

**Reasons**

1. The CPA Uses of Resources highlights the criteria for judgement in relation to the Statement of Internal Control as:
  - There is a specific member group (such as an audit sub committee or member panel), which has audit and governance issues as the principal responsibility in its terms of reference. (Level 3)
  - The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment. (Level 3)
  - 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. (Level 4)
  - The Council has taken steps to ensure that the audit committee chair either has previous knowledge of, or has received appropriate training on financial and risk management, accounting concepts and standards, and the regulatory regime. (Level 4)
  - Audit committee members are provided with specific training relevant to their responsibilities. (Level 4)
  - The Audit Committee has terms of reference, which are reviewed on an annual basis, taking into account relevant governance developments and how it integrates with other committees with in the council. (Level 4)

**Background**

2. The Audit Commission in their Annual Audit and Inspection Letter identified that the Council needed to develop the role of the Audit Committee in providing leadership on audit and governance issues, including documenting the overall assurance framework.

3. The CIPFA guidance builds on the previously published CIPFA Position Statement on Audit Committees.
4. It must be borne in mind that the concept of an Audit Committee within Herefordshire Council is in its infancy and that it will take time for it to be fully developed and meet the needs of the members. It is pleasing to note that the guidance requires only fine tuning to the Council's current good practices, however It's likely that the Council's preferred approach will not fit the guidance in every aspect.

## **Considerations**

### **Key Areas**

5. The CIPFA Guidance on Audit Committees gives guidance in four key areas: -
  - Purpose
  - Core Functions
  - Features
  - Structure and Administration
6. A synopsis of the Guidance is set out in Appendix 1.

### **Gap Analysis**

7. The self-assessment checklist in the Guidance (Appendix 2) measuring the effectiveness of Audit Committee was completed. The key gaps identified were:
  - Alignment of the Audit Committees current terms of reference with the CIPFA guidance. (Appendix 3)
  - The need to develop how external audit and other inspection agencies' reports are presented to the Audit Committee
  - How to develop the Audit Committee's role in relation to internal control strategies such as the Risk Management Strategy
  - Cabinet members and Strategic Monitoring Committee members are on the Audit Committee, which is not in line with the guidance requirement that Audit Committee members are sufficiently independent of other key committees of the Council.
  - At the current time the Audit Committee does not access other committees
  - Separate and private meetings are not held with the external auditor and Internal Audit. It is felt that these meetings would not fit into the Councils culture and would erode transparency; and
  - Although induction training is given to new members no specific Audit Committee training has been given.

## **Strategies overseen by the Audit Committee**

8. The following list gives an indication of the strategies recommended to be overseen by the Audit Committee: -
  - Risk Management;
  - The assurance framework, including the production of the Statement of Internal Control (SIC);
  - Codes of corporate governance, standards and behaviour;
  - Arrangements for delivering Value for Money;
  - Anti-fraud arrangements;
  - Arrangement for performance management;
  - Internal audit strategy/plan and
  - Anti-corruption arrangements including the Council's Whistleblowing guidance.

## **Specific Committee Audit Training**

8. The Guidance highlights specific training that covers:
  - Financial reporting
  - Governance
  - Understanding financial statements
  - The regulatory framework
  - The role of Internal and External Audit
  - The importance of Risk Management
9. The Director of Resources and her managers are developing a rolling training programme for members in line with suggested good practice, that will be delivered to members, starting with risk management.

## **Audit Committee Work Programme**

10. It is anticipated that the work programme for the Audit Committee will be member led however it might be helpful to give the Committee an indication of some of the activities it may wish to undertake. In addition the CIPFA guidelines suggests that it is general practice to have at least four meetings per year. It is therefore suggested that the Councils Audit Committee meets four times a year and develop the programme set out below.

Month	Activity
April 2006	<ul style="list-style-type: none"> <li>• Approve Audit Services Annual Plan</li> <li>• Approve Audit Services Strategy.</li> <li>• Consider the External Auditors Work Programme for the 2005/6 accounts</li> <li>• Consider The Council's Anti-Fraud and Corruption Policy and recommend approval to Cabinet.</li> <li>• Consider and Review the Councils Statement of Internal Control Assurance process.</li> </ul>
June 2006	<ul style="list-style-type: none"> <li>• Consider and approve the Council's Annual Accounts for 2005/6</li> <li>• Consider and approve the Council's Statement of Internal Control for 2005/6</li> <li>• Consider the Principal Audit Manager's Annual Assurance Report and internal control opinion for 2005/6.</li> </ul>
20th September 2006	<ul style="list-style-type: none"> <li>• Provisional meeting to consider any SAS610 issues if any. (paragraph 8 refers)</li> </ul>
November 2006	<ul style="list-style-type: none"> <li>• Consider Interim Assurance Report to 30th September 2006</li> </ul>
February 2007	<ul style="list-style-type: none"> <li>• Receive and discuss the external auditors Annual Audit and Inspection Letter.</li> <li>• Consider Interim Assurance Report to 31st December 2006.</li> </ul>

11. A provisional meeting of the Audit Committee has been arranged for 20th September 2006 in case the Audit Commission has to report any matters required under Statement of Auditing Standard 610 to be brought to the attention of those charged by the Council with the responsibility for Corporate Governance, which for Herefordshire Council is the Audit Committee. In previous years such a meeting has not been required, as the Council has agreed the appropriate amendments to the Councils Statement of Accounts.

## Risk Management

12. Non-compliance with the Guidance could impact adversely on the Councils target of getting a Level 4 for Internal Control in its CPA Use of Resources Judgement Assessment.

## **RECOMMENDATIONS**

- THAT (a) Subject to any comments and amendments by the Audit Committee, it is recommended to Council that the Terms of Reference in the CIPFA Guidance be adopted as outlined in Appendix 3;**
- (b) the Audit Committee considers the strategies it wishes to oversee (paragraph 4 refers);**
- (c) the Director of Resources agrees a timetable for training with the Chairman of the Audit Committee (paragraph 5 refers); and**
- (d) Subject to any comments and amendments by the Audit Committee, it is recommended that the above Work Programme be adopted (paragraph 7 refers).**

## **BACKGROUND PAPERS**

- CIPFA guidance on Audit Committees