

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES

The CIPFA Guidance on Audit Committees gives guidance in four key areas:

1. PURPOSE

It suggests that Councils should formally approve a statement of purpose, along the following lines:

‘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 authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment. To oversee the financial reporting process.’
The Guidance also identifies the benefits of a fully developed Audit Committee as:

- Raising greater awareness of the need for internal control and the implementation of audit recommendations;
- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and any other similar review process; and
- providing additional assurance through a process of independent and objective review.

It also highlights that the scope of the audit committee should be sufficient to provide challenge across all committees of the Council, as well as the Executive.

2. CORE FUNCTIONS

The Core functions were identified as:

- Considering the effectiveness of the authority’s risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
- Seeking assurances that action is being taken on risk related issues identified by auditors and inspectors. Being satisfied that the authority’s assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- Approving (but not directing) Internal Audit’s strategy and plan and the monitor of performance;
- Reviewing summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- Receiving the annual report of external audit and inspection agencies;
- Ensuring 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;

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES

- Reviewing the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit;

It was also felt that a fully developed Audit Committee would improve corporate focus on the issues arising from risk management, internal control and reporting. To aid the Audit Committee in carrying out its functions, it should have a clear role in relation to the Council's Internal Audit service. A key part of that role was the receiving and reviewing of the annual report from the Head of Internal Audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. This is in line with current Council practice.

With regards to External Audit and Inspections, the guidance is of the opinion that the Audit Committee should contribute to the Council's response to the Audit Commission's annual audit and inspection letter, reports and opinion in addition to having access to inspection reports. It was also felt that the Audit Committee should have the opportunity to meet privately with the external auditor with out officers being present.

The guide suggests that the Audit Committee should take a view on whether certain council strategies have been properly formulated, and remain effective and receive regular reports on action taken to ensure the continued appropriateness of these strategies. The relevant strategies to be overseen should include:

- Risk Management;
- the assurance framework, including the production of the Statement of Internal Control (SIC);
- local codes of corporate governance, standards and behaviour;
- arrangements for delivering value for money;
- anti-fraud arrangements;
- anti fraud arrangements including the authority's whistle-blowing guidelines.

With regards to the Council's Financial Statement it was felt that that the Audit Committees review should focus on:

- The suitability of accounting policies and treatments;
- any changes in accounting policies and treatments;
- major judgemental area, e.g. provisions; and
- significant adjustments and material weaknesses in internal control reported by the external auditor.

3. FEATURES

The guidance is of the view that a good audit committee has:

- A strong Chair;
- unbiased attitudes;

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES

- the ability to challenge the executive when required; and
- a membership that is balanced, objective, independent of mind and knowledgeable.

In addition in line with best practice the Audit Committee should report directly to Council. This is in line with the Council's approach. The support and interest of the Chief Executive and the Leader of the Council is seen as essential again this is in line with the Councils approach.

4. STRUCTURE AND ADMINISTRATION**Structure**

The structure of the Audit Committee should not be part of the scrutiny, overview or standards Committees as there was the danger that either the Audit Committee functions could become diluted by the pressure of other business or that the proper functions of these committees might become less clear.

It was felt that having a group of members bearing the name 'audit committee' would add weight when considering audit related issues.

Independence

To be effective the audit committee needs to be independent of the executive and scrutiny. and have the ability to challenge the executive on issues and to report to it on major issues and contraventions. Cross membership should not be the norm, and if it is seen as necessary this should be restricted to one member from each.

The Audit Committee Chair should not be a member of the executive, as this promotes the objectivity of the committee. Although independent the Audit Committee should have a clear right of access to other committees of the Council.

Meetings

The frequency and timings of meeting was a matter for the Council to decide, but recommends at least four meetings a year. With one meeting covering the setting of the programme, agreeing audit plans and generally preparing for the year ahead, leaving three meeting available for monitoring purposes and to cover the cycle of assurance statements and financial reporting.

Composition

The size of the Audit Committee is relevant although not crucial. HM Treasury guidance recommends between three and five members for an Audit Committee

Some authorities adhere to the political balance rules as contained in s15 of the Local Government and Housing Act 198---, when bringing their Committee together.

Co-option may well be beneficial, with the injection of an external view for specific discussion.

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES

Skills and Experience

It was felt that financial awareness was essential for the chairman, with a broad knowledge understanding of financial, risk control and corporate governance issues facing local government, generally and the Council specifically. In addition an ability to question, probe, and seek clarification about complex issues was deemed essential.

The guidance cited a survey, which identified areas that all Audit Committee members should be familiar with:

- Governance - understanding of the requirements of legislation and of local arrangements;
- risk Management - recognising the requirements of CPA in English Authorities;
- internal control assurance;
- the organisation's core activities;
- accounting issues; and
- regulation and compliance.

Training

It identified that appropriate and timely training for members would build on the key attributes of independence, a risk-focused attitude and a balanced approach already possessed by members.

And suggests induction training for all new committee members covering:

- The role of the committee;
- the terms of reference;
- the time input required of members;
- an overview of the Council's activities; and
- the financial and risk environment.

With further regular and specific audit committee training covering:

- Financial reporting;
- governance;
- understanding financial statements;
- the regulatory framework;
- the role of internal and external audit; and
- the importance of risk management.