

**Audit Committee****On 21<sup>st</sup> March 2006**Report Title: **Audit Committees: CIPFA guidance for local authorities**Report of: **Director of Finance**Wards(s) affected: **All**Report for: **Non-key decision****1. Purpose**

- 1.1 To advise Members of the latest guidance issued by CIPFA on Audit Committees.
- 1.2 To provide a self-assessment checklist to indicate how compliant Haringey's Audit Committee is with the guidance.

**2. Introduction by Executive Member**

- 2.1 To deliver the core functions of an audit committee, providing effective leadership, on corporate governance, financial reporting and audit issues, it is expected that the council would empower the Audit Committee to ensure the full compliance of the new CIPFA Guidelines, as outlined at the report, for the interest of enforcing best practice, which in turn would enable the council to get further CPA ratings.

**3. Recommendations**

- 3.1 That Members note the guidance provided by CIPFA on the role of Audit Committees.
- 3.2 That Members agree the action plan to ensure that the Audit Committee complies with best practice and the CIPFA guidance.
- 3.3 That the Council empowers the Audit Committee to discharge its duties and responsibilities in accordance with the requirements of the new CIPFA guidance.

Report Authorised by: **Director of Finance**

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#### **4. Executive Summary**

4.1 Audit Committees are an essential part of good governance and this is recognised in the Comprehensive Performance Assessment (CPA) which incorporates a section challenging each local authority to demonstrate that their committee works effectively.

4.2 In order to assist local authorities to promote best practice and ensure their audit committees are effective, CIPFA have published guidance which covers the purpose, role and functions of an effective audit committee. The CIPFA guidance is not mandatory, or prescriptive. Each authority should review their existing arrangements and evaluate whether they are effective in terms of delivering the required functions.

4.3 This report sets out the main features of the CIPFA guidance and indicates where Haringey does, or does not, fulfil the suggested roles, responsibilities or best practice. An action plan is also attached which addresses any areas where revisions to existing arrangements are suggested.

#### **5. Reasons for any change in policy or for new policy development (if applicable)**

5.1 None

#### **6. Local Government (Access to Information) Act 1985**

6.1 List of background documents:

- Audit Committees – Practical guidance for Local Authorities
- Accounts and Audit Regulations 2003

#### **7. Background**

7.1 There are no statutory requirements for local authorities to have an Audit Committee. However, the Accounts and Audit Regulations 2003 state that a council is required *'to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions'*. Additionally, s151 of the Local Government Act 1972 requires council's to *'make arrangements for the proper administration of its financial affairs'*.

7.2 Although Audit Committees have been in place in many authorities, including Haringey, for some time, there has been no guidance setting out the principles, roles, responsibilities, functions and how such committees support the authority's corporate governance arrangements.

7.3 CIPFA's guidance is not mandatory, nor is it designed to be prescriptive. Each authority should assess their arrangements against the key principles and decide whether they are as effective as they need to be in order to contribute to good governance.

7.4 Although the guidance does not prescribe any particular model, it incorporates key features which should be common to all audit committees. These features form the framework of the guidance, as follows

- A Statement of purpose;
- Core functions;
- Features; and
- Structure and administration.

7.5 This report examines each of the key features and provides a summary in the next section as to how far Haringey's Audit Committee complies with the guidance. An action plan is attached to address any areas which indicate the need for further review.

## **8. Key Features of the CIPFA Guidance**

### **8.1 Purpose**

8.1.1 There are many benefits obtained from operating an effective audit committee, including raising 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; and reinforcing the importance and independence of internal and external audit.

8.1.2 The CIPFA guidance recommends that each local authority formally approves a Statement of Purpose for the Audit Committee, as follows:

*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, and to oversee the financial reporting process.*

8.1.3 Haringey does not have a separate statement of purpose for the Audit Committee, although each of the above areas are already contained within its terms of reference. In order to comply with the guidance, it is recommended that the Statement of Purpose is included as an introduction to the existing terms of reference for the Audit Committee.

### **8.2 Core functions**

8.2.1 The audit committee should be able to improve corporate focus on the issues arising from risk management, internal control and reporting. The core functions of the audit committee are therefore summarised as follows:

- Internal Audit – formally approving (but not directing) the overall strategy to ensure it meets the council's strategic direction; approving the annual programme of audits; monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function; receiving and reviewing the annual audit report.
- External Audit – receiving and considering the work of the external auditor, including commenting on the programme of work and receiving final reports; contributing to the council's response to the Audit Commission's annual audit and inspection letter; ensuring there is effective working between all audit and inspection functions.

- Control strategies - receiving regular reports on action taken and continuing effectiveness of various control strategies including: risk management, assurance framework (including the production of SIC), local codes of corporate governance; anti-fraud arrangements, anti-corruption arrangements (including whistleblowing guidelines).
- Financial Statements – reviewing the financial statements, e.g. before approval under Regulation 10 of the Accounts and Audit Regulations, in conjunction with the external auditor’s SAS 610 report.

8.2.2 The terms of reference for Haringey’s Audit Committee already incorporate the majority of the recommended core functions. The main exception relates to the review of financial statements, although this is not listed within the self assessment checklist.

8.2.3 The review of the financial statements in Haringey is completed by General Purposes Committee. However, the Audit Committee does receive information in relation to the financial statements for review, including the Annual Audit and Inspection letter, Statement on Internal Control, and internal audit reports on key financial systems.

### 8.3 Features

8.3.1 Best practice requires that an audit committee remains independent of the Executive and Scrutiny functions and reports directly to Council. This is already in place within Haringey’s committee structure.

8.3.2 Other recommended features include the requirements that the Chair and members have knowledge, experience and interest in the various areas of responsibility, meetings are free from political influences, agenda papers are circulated in advance and subsequent decisions are reached promptly, and the committee plays a role in monitoring and, where necessary, chasing managers for responses to audit recommendations. Haringey’s Audit Committee conforms to and is able to demonstrate all these requirements.

### 8.4 Structure and Administration

8.4.1 Although CIPFA’s guidance does not prescribe any one model, it highlights some key elements of best practice as to how the audit committee should be set up and administered. These are summarised as follows:

- Independence – the audit committee needs to be independent from executive and scrutiny functions in order to be able to challenge on issues and report on major issues.
- Meetings – guidance recommends at least four meetings per year to allow for regular review and monitoring.
- Composition – the size of the audit committee is not prescribed and should be based on individual authorities requirements, although should abide by their rules on political balance and set an appropriate quorum.
- Skills and experience – no prescribed qualifications are set, but it is recommended that members have an understanding of the financial, risk and control and corporate governance issues facing the authority.
- Training – guidance recommends appropriate and timely training for members, covering both induction training and an ongoing programme of specific training in relation to the audit committee requirements and duties.

- Administration – guidance recommends regular attendance of the key senior management figures, including chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. The committee should have the right to call any other officers or agencies of the council as required.

8.4.2 Haringey's Audit Committee fulfils the requirements of the CIPFA guidance in most areas. There are two areas where Haringey's practices differ from the guidance and these are explained below.

8.4.3 The guidance suggests that the Chief Executive, monitoring officer and head of resources may also attend meetings, although the self assessment checklist does not specify individual officers other than the authority's s151 officer or deputy. Haringey's terms of reference give the committee the authority to require any officer to attend meetings and the s151 officer or their deputy attend every meeting. The CIPFA guidance recommends appropriate induction and ongoing training. This area has been addressed within the member training strategy and training will be provided to audit committee members, both at induction and on an ongoing basis from May 2006.

## **9. Summary and Conclusions**

9.1 The CIPFA guidance outlines some key principles and features of audit committees and whilst not mandatory, indicates areas of recommended best practice. Haringey's Audit Committee complies with most of the guidance, as evidenced by the self-assessment questionnaire attached as an appendix to this report.

9.2 There are some areas within the guidelines which Haringey needs to address and these have been highlighted for action within the report. An action plan is attached to the report for approval.

## **10. Recommendations**

10.1 That Members note the CIPFA guidance on Audit Committees and the fact that Haringey is already undertaking most of the best practice features listed within the guidance.

10.2 That Members approve the action plan attached to this report.

<b>ISSUE</b>	<b>ACTION</b>	<b>RESPONSIBLE OFFICER(S)</b>	<b>TARGET DATE</b>
Audit Committee - Statement of Purpose	Incorporate the agreed statement of purpose as an introduction to the Audit Committee terms of reference in accordance with CIPFA guidelines	Head of Audit and Risk Management	31 March 2006
Induction training for Audit Committee members	Provide induction training for members at or before the first meeting of the 2006/07 Audit Committee	Head of Audit and Risk Management Audit Manager - Deloitte	June/July 2006
Advanced training for members	Provide training for members, including risk management, as part of the members training programme during 2006/07	Head of Audit and Risk Management Audit Manager - Deloitte	May/June 2006