

LG59
Legislation Committee No 3
Proposed Local Government (Wales) Measure

Response from CIPFA - Annex

CIPFA

AUDIT COMMITTEES PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES

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AUDIT COMMITTEES
PRACTICAL GUIDANCE
FOR LOCAL AUTHORITIES

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FOREWORD

It is with pleasure that we introduce this guidance. It is very timely, as the issue of audit committees is relevant for all those concerned with good governance in local government. We hope that this guidance will help to inform the debate about what constitutes a robust and effective audit committee.

Audit committees are an essential element of good governance. They are mandatory in most sectors but local government is the exception.

CIPFA has consulted widely on its *Position Statement on Audit Committees in Local Government* and the largely positive response gives a strong indication of the level of interest that exists and the considered thinking that has taken place.

This guidance is based on that Position Statement and seeks to expand it into a practical guide that will allow authorities to develop committees to suit their needs whilst adhering to fundamental principles.

We commend this guidance to all authorities that are embarking on setting up an audit committee or are reviewing their arrangements, as a sound, practical tool for developing effective audit committees.



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Chair, CIPFA's Public Finance and Management Board



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EXECUTIVE SUMMARY

Although audit committees have been a feature of the public sector for some time, there has been a lack of clarity about how they should operate in local government. Audit committees are not just the concern of auditors; they are about the governance, financial reporting and performance of the whole authority. Yet the fact that local government is not required to establish them is unique in the public sector – less than half of all local authorities have audit committees.

Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an audit committee, independent from the executive and scrutiny functions.

Effective audit committees 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. And they enhance public trust and confidence in the financial governance of an authority.

Now Comprehensive Performance Assessment sets a challenge to local authorities (in England) to ensure that their audit committees work effectively.

This guidance has been written to help those authorities that do not already have an audit committee to implement one effectively, and to help those authorities that have audit committee arrangements in place to assess whether they are as effective as they need to be to contribute to good governance.

CIPFA seeks to address the key issues in a discursive manner, without being prescriptive, as the variety of types, styles and sizes of local authorities mitigates against a single model for all.

This guidance, therefore, seeks to consider the key issues for all authorities to help them address the principles.

CIPFA stresses that audit committees have a key role in corporate governance. They should, therefore, be clearly integrated into an authority's governance framework.

This guidance explores the main purposes of an audit committee and concludes that these include giving independent assurance to members and the public, scrutinising financial management and reporting, and providing challenge across the council.

In addition to internal and external audit, the functions overseen by the committee should include a number of control strategies such as risk management, the authority's governance and assurance statements, and anti-fraud and anti-corruption arrangements.

This guidance identifies a range of benefits to an authority from the operation of an effective committee. These include increasing public confidence, highlighting the independence of audit, and raising awareness of the importance of internal controls. Consultees have assisted in highlighting a range of characteristics and success factors that help to identify when a committee is effective.

CIPFA believes that the audit committee must be independent of the executive and scrutiny functions and that it must have a clear right of access to full council, other council groups and committees. The number of members and the frequency of meetings are not prescribed, but this publication gives guidance to allow authorities to determine their own approach.

This guidance stresses the importance of the audit committee's relationship with the authority's chief finance officer. The audit committee helps the officer to discharge his or her statutory functions. In turn, this officer is a key source of expert advice and guidance for the audit committee.

Audit committees exist in a number of councils, although not necessarily in name. What is important is the operation of the function of an *effective* audit committee. Status and independence are important, but being effective also means having well informed people able to confirm to the

council that the right processes are in place to give confidence that the authority's financial stewardship and overall governance arrangements can be relied upon.

Everyone charged with the responsibility for governance in their authority will want to familiarise themselves with the issues covered by this guidance to enable their audit committees to work effectively.

Chapter 1

INTRODUCTION AND PRINCIPLES

The role of those responsible for corporate governance and financial reporting processes continues to be open to scrutiny by regulators, legislators and the general public. Audit committees are increasingly viewed as a critical component in the overall corporate governance process.

CIPFA, recognising this growing importance, has developed a set of principles for audit committees in local government. These were partly drawn from CIPFA's *Audit Committee Principles in Local Authorities in Scotland: A Guidance Note*, but also reflect the views and contributions of Audit Panel members.

These principles were encapsulated in the *Position Statement on Audit Committees in Local Government* (attached at Appendix 3), which has been exposed to widespread consultation. That consultation indicated broad acceptance of the principles as a sound basis for the creation and management of effective audit committees.

This guidance draws on practical experience across the public sector. It also expands on the elements of the Position Statement, both to look at the principles in more depth and to reflect the diversity of local government arrangements, which came through during the consultation process.

THE POSITION STATEMENT

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities. It also recognises that audit committees are a key component of corporate governance and that they are an important source of assurance about the organisation's

arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

The way in which an audit committee is organised will vary depending upon the specific political and management arrangements in place in any local authority. This guidance therefore explores how audit committees relate to local authorities' different arrangements for managing and governing themselves.

The Local Government Act 2000 introduced new ways of governing local authorities. All councils were required to have an executive and one or more scrutiny committees. The executive could be:

- a directly elected mayor with a cabinet
or
- a cabinet with a leader
or
- a directly elected mayor and council manager.

The role of scrutiny is to review policy and challenge whether the executive has made the right decisions to deliver policy goals.

Whichever form of executive and scrutiny model chosen, the audit committee needs to be separate, organisationally and practically, from both these functions.

Although legislation does not require audit committees, 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".¹ Further, section 151 of the Local Government Act 1972 requires the council to "make arrangements for the proper administration of its financial affairs".

The chief finance officer is key to discharging these requirements. To be truly effective, the chief finance officer requires an effective audit committee to provide support and challenge, as well, of course, as adequate and effective internal audit. Both these elements are enshrined

1 *Accounts and Audit Regulations 2003 (ODPM, 2003) and Accounts and Audit (Wales) Regulations 2005 (Welsh Assembly Government, 2005).*

in CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom 2003*.

Although CIPFA does not wish to prescribe any particular model, it believes that there are features that should be common to all. These key features form the framework for this guidance:

- 1 A Statement of Purpose
- 2 Core Functions
- 3 Features
- 4 Structure and Administration.

Chapter 2

PURPOSE

Extract from the Position Statement:

1. A Statement of Purpose

The local authority 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, and to oversee the financial reporting process.

In some authorities, audit committees have evolved, from ad hoc committees with few defined responsibilities to crucial committees with growing responsibilities, accountable to the full council. But this development is not reflected across local government as a whole.

There are many benefits to be gained from operating an effective audit committee. It:

- raises greater awareness of the need for internal control and the implementation of audit recommendations
- increases public confidence in the objectivity and fairness of financial and other reporting
- reinforces the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Statement on Internal Control)

- provides additional assurance through a process of independent and objective review.²

“The committee is beneficial as it provides authority and backing for the audit function and emphasises to management the need to comply with the audit process.”

Head of audit, a housing association

Audit committees are not just the concern of auditors; they are relevant to the governance, financial reporting and financial performance of the whole authority.

“Audit committees are about governance and not just audit.”

Director of resources and deputy chief executive, a Welsh county council

They are central to the provision of effective corporate governance, which depends, in part, on a systematic strategy, a framework and processes for managing risk.³ Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting as well as helping to deliver improved services. This, in turn, depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been properly dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance, specifically:

- **independent assurance** of the adequacy of the risk management framework and the associated control environment within the authority
- **independent review** 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

² *Source: Improving the Effectiveness of Audit Committees: A Good Practice Guide (Housing Corporation, 2004).*

³ *Corporate Governance in Local Government – A Keystone for Community Governance: Framework (CIPFA/SOLACE, 2001). See dimension 4 – risk management and internal control.*

- **assurance** that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with and that appropriate accounting policies have been applied.

The scope of an audit committee should be sufficient to provide challenge across all committees of the council, as well as the executive.

"It is important to recognise the uniqueness of the democratic element of local government and the statutory arrangements for scrutiny. What is important is that there is a committee separate from the executive."

Society of District Council Treasurers

An issue to be recognised and resolved is that the committee, through the exercise of its powers – particularly in relation to the annual accounts timetable – may become an obstacle to timely activity and thus delay important publications. This can be avoided through careful consideration of the timetable for the committee. The audit committee should not be involved in producing the accounts. But it should have sufficient time to appraise the process, give assurance that proper practices and policies have been followed, and commend the accounts to the authority.⁴

⁴ *Although it remains the responsibility of the chief finance officer to certify that the annual statement of accounts presents fairly the financial position and transactions of the authority.*

Chapter 3

CORE FUNCTIONS

Extract from the Position Statement:

2. Core Functions

Audit committees will:

- *Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.*
- *Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.*
- *Be 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.*
- *Approve (but not direct) internal audit's strategy, plan and monitor performance.*
- *Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.*
- *Receive the annual report of the head of internal audit.*
- *Consider the reports of external audit and inspection agencies.*
- *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.*
- *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.*

An audit committee should be able to improve corporate focus on the issues arising from risk management, internal control and reporting. It may be difficult for officers and members to identify what needs to be done to improve, or to act on significant issues arising from audit work or the review of the Statement on Internal Control, unless there is a forum for reviewing such issues and tracking action on what needs to be done.

INTERNAL AUDIT

The audit committee will have a clear role in relation to the authority's internal audit function. This should involve:

- formally approving (but not directing) the overall strategy to ensure that it meets the council's overall strategic direction
- approving the annual programme of audits (paying particular attention to whether there is sufficient and appropriate coverage)
- monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function.⁵

The audit committee's role in relation to reviewing the work carried out will include formal consideration of summaries of work done, key findings, issues of concern and action in hand as a result of audit work. The committee will wish to judge the effectiveness of internal audit by receiving feedback on the work carried out.

A key part of the role is receiving and reviewing 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. It is important to emphasise that the head of internal audit provides independent assurance to the audit committee, and by doing so, helps support the chief finance officer's legal responsibilities.

The head of internal audit should be able to meet privately with the committee.

EXTERNAL AUDIT AND INSPECTIONS

The audit committee's role will include receiving and considering the work of the external auditor.

⁵ *Including a view on whether internal audit meets the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.*

The programme of audits will follow a nationally agreed path to some extent but, where local flavour from the auditor's risk assessment can be added, the committee should be given the chance to comment on the inclusion of any audit work and should receive reports following the completion of such work in order to monitor action to be taken.

The audit committee should contribute to the council's response to the Audit Commission's annual audit and inspection letter, reports and opinion. It should also consider and express an opinion on the selection and rotation of the external auditor.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and to compare with any relevant internal audit and external audit reports. Inspection reports will need to be actioned either by the council's corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry to the authority.

The committee should also ensure that it is aware of the work of scrutiny and other committees so that it can take account of issues relevant to its areas of interest.

The audit committee's role extends also to ensuring that there is effective working between all audit and inspection functions to maximise the value of the review function to the authority.

CONTROL STRATEGIES

The council will have a number of strategies in place to regulate its activities and control the actions of its employees, elected members and contractors. The audit committee should take a view on whether these

strategies have been properly formulated, and remain effective. Regular reports to the committee on action taken and annual statements of the continued appropriateness of the strategies will be necessary if the audit committee is to perform this role.

The strategies to be overseen by the audit committee will include:

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

By reviewing these strategies, the audit committee will be in a position to monitor the action recommended by auditors and inspectors and agreed and implemented by officers to improve the situation. It will also be able to monitor changes to the risk environment and guide any associated actions.

"Audit committees provide independent assurance to the authority on the adequacy of the internal control environment, risk management framework and financial reporting systems."

Director of Audit Policy and Appointments, the Audit Commission

FINANCIAL STATEMENTS

The audit committee should review the financial statements, for example, before they are approved under regulation 10 of the Accounts and Audit Regulations 2003, and again, in conjunction with the external auditor's SAS 610 (ISA 260) report to those charged with governance, following completion of the audit. The committee's review of the financial statements should focus on:

- the suitability of accounting policies and treatments

- any changes in accounting policies and treatments
- major judgemental areas, eg provisions
- significant adjustments and material weaknesses in internal control reported by the external auditor.

Suggested terms of reference are at Appendix 1.

Chapter 4

FEATURES

Extract from the Position Statement:

3. Features

Good audit committees will be characterised by:

- *A strong chair – displaying a depth of skills and interest.*
- *Unbiased attitudes – treating auditors, the executive and management equally.*
- *The ability to challenge the executive (leader/chief executive/mayor or whatever combination) when required.*
- *A membership that is balanced, objective, independent of mind, and knowledgeable.*

In order to be effective, an audit committee needs a chair and membership that has knowledge, experience and interest in the field. The committee will also benefit from members with financial awareness, independence of thinking and a balanced approach to significant issues. And members must recognise and understand the value of the audit function.

The audit committee needs to be recognised as an important body in the council's structure to allow it to provide the essential challenge to the executive when needed. Best practice from the private sector and other parts of the public sector is for an audit committee to report directly to the board, ie council, therefore making it independent from the executive and scrutiny functions. This provides status, independence and clarity to the role.

The support and interest of the chief executive and leader of the council is therefore essential.

“The active support of the chief executive in relating to the committee members is seen as an important factor in the success of the arrangements, as is the generally supportive stance of the members.”

Head of audit, a small district council

Other features of an effective audit committee include:

- meetings are characterised by free and open discussions by all members without political influences being displayed
- decisions are reached, promptly, on all matters put before the committee
- financial understanding is displayed by one or more of the members when considering issues
- agenda papers are circulated far enough in advance of meetings to allow adequate preparation by members
- the committee displays a role in monitoring and, where necessary, chasing managers for responses to audit recommendations.

Chapter 5

STRUCTURE AND ADMINISTRATION

Extract from the Position Statement:

4. Structure and Administration

Although no single model of audit committee is prescribed, all should:

- *Be independent of the executive and scrutiny functions.*
- *Have clear reporting lines and rights of access to other committees/ functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.*
- *Meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.*
- *Meet privately and separately with the external auditor and head of internal audit.*
- *Include, as regular attendees, the chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. Other attendees may include the monitoring officer (for standards issues), chief executive and the head of resources (where such a post exists). These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the council as required.*
- *Be properly trained to fulfil their role.*

STRUCTURE

Some authorities discharge the functions of an audit committee by other means, perhaps through other committees, or as part of the scrutiny, overview or standards committees. Such arrangements may appear to work well in practice, but there is always the danger either that audit committee functions become diluted by the pressure of other business, or that the proper functions of these other bodies become less clear. Having

a group of members bearing the name 'audit committee' will add weight when considering audit and related issues.

In general, non-executive councillors are less clear about their roles than executive councillors. In particular, they struggle with their role in scrutiny functions. Scrutiny and audit functions are quite different and combining them could lead to confusion in the minds of members, officers and the public.

INDEPENDENCE

To be effective the audit committee needs to be independent from executive and scrutiny. The link with the scrutiny function can be beneficial but the ultimate power of the audit committee could be compromised by too much cross-membership. The audit committee needs to retain the ability to challenge the executive on issues and to report to it on major issues and contraventions. Therefore cross-membership should not be the norm, and if it is seen as necessary should be restricted to one member from each.

The audit committee chair should not be, expressly, a member of the executive. A non-executive chair is important in order to promote the objectivity of the audit committee and to enhance its standing in the eyes of the public.

Whilst a separate voice is vital, a clear right of access to other committees of the council and strategic functions is also important if such independence is to lead to any beneficial action.

MEETINGS

The frequency and timing of meetings is a matter for each authority to determine, based on its own committee timetable and needs. However, from general practice, at least four meetings per year appear to be appropriate. One meeting annually will be taken up with setting the programme, agreeing audit plans and generally preparing for the year ahead, leaving three meetings which are available for monitoring purposes and to fit in with the cycle of assurance statements and financial reporting. For example, some authorities' audit committees may wish to meet before

approval of the accounts, to review both the financial statements and the draft SIC, and after completion of the audit to review the auditor's report to those charged with governance.

COMPOSITION

The size of the audit committee is relevant although not crucial. Too small a number of members and political balance may be difficult to achieve; too large and meetings may become unwieldy. HM Treasury guidance⁶ recommends between three and five members for an audit committee. It is also important that the committee set a quorum, to enhance the credence and standing of the decisions that it makes.

Some authorities adhere to the political balance rules as contained in s15 of the Local Government and Housing Act 1989, when bringing their committee together. Any audit committee, which is a properly constituted committee of the council, will need to abide by the rules concerning political balance.

Co-option may well be beneficial. Often, the injection of an external view, for specific discussion, can be seen as bringing a new approach and flavour to committee discussions. Many authorities have made provision to co-opt a member but have not bestowed voting rights on that member. This allows flexibility in co-option and retains the decision-making function for the permanent members of the audit committee. An equivalent model is the standards committee.⁷

6 *The Audit Committee Handbook (HM Treasury, 2003).*

7 *Under the Local Government Act 2000, a standards committee of a relevant authority in England or a police authority in Wales must include:*

- *at least two members of the authority, and*
- *at least one person who is not a member or an officer, of that or any other relevant authority.*

A standards committee:

- *may not include the elected mayor or executive leader, and*
- *may not be chaired by a member of the executive.*

“Having observed how effectively an experienced practitioner has participated as an independent member of an audit committee, I would urge all authorities to consider this issue carefully.”

A CIPFA Audit Panel member

SKILLS AND EXPERIENCE

To be effective, the members of the audit committee will require certain skills and will benefit from having gained experience in some of the key areas to be considered by the committee.

Whilst financial awareness is essential, particularly for the chair, an accounting background or qualification is less important than a broad understanding of the financial, risk and control, and corporate governance issues facing local authorities generally and the council specifically. An ability to question, probe and seek clarification about complex issues is also essential.

A survey of 24 housing associations⁸ carried out in 2004 identified areas that all audit committee members should be familiar with:

1. governance – understanding of the requirements of legislation and of local arrangements
2. risk management – recognising the requirements of CPA in English authorities
3. internal control assurance
4. the organisation’s core activities
5. accounting issues
6. regulation and compliance.

⁸ *Improving the Effectiveness of Audit Committees: A Good Practice Guide (Housing Corporation, 2004).*

TRAINING

Identifying sufficient members with appropriate skills and experience will be difficult, especially as many such members could already be serving on other committees and thus may not be eligible for membership.

Appropriate and timely training for members will help to overcome this problem and build upon the key attributes of independence, a risk-focused attitude, and balanced approach that preferred members will already possess.

Induction training should be provided for all new committee members and cover:

- the role of the committee
- the terms of reference
- the time input required of members
- an overview of council activities
- the financial and risk environment.

Further, regular and specific audit committee training should also be provided in:

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

This training can be provided in a variety of ways, including:

- conferences
- formal courses

- internally arranged sessions
- briefings from external visitors.

ADMINISTRATION

Effective administrative support for the audit committee will clearly be important, as for any committee of the council. If the committee is to take an active part in council business, it should be administered as effectively as any other should. The regular attendance of the key senior management figures mentioned in the Position Statement is important both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

The authority's chief finance officer will have an important relationship with the committee. This officer's role and that of the audit committee are closely aligned and complementary. CIPFA's *A Statement on the Role of the Finance Director in Local Government* states that one of the finance director's key roles is "maintaining strong financial management underpinned by effective financial controls". The finance director's role is also about "supporting and advising democratically elected representatives".

This officer should therefore be a key point of contact for audit committee members. The committee will need to receive advice from the officer on most, if not all, of the matters taken to the body.⁹ Thus, it is advisable that this officer or deputy be required to attend all meetings to fulfil this function which, in turn, will give the committee additional credibility.

⁹ *This relationship should not interfere with the head of internal audit's responsibility to report independently to the audit committee in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.*

Appendix 1:

Suggested Audit Committee 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.

Appendix 2: Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

ISSUE	YES	NO	N/A	Comment
Terms of Reference				
Have the committee's terms of reference been approved by full council?				
Do the terms of reference follow the CIPFA model?				
Internal Audit Process				
Does the committee approve the strategic audit approach and the annual programme?				
Is the work of internal audit reviewed regularly?				
Are summaries of quality questionnaires from managers reviewed?				
Is the annual report, from the head of audit, presented to the committee?				
External Audit Process				
Are reports on the work of external audit and other inspection agencies presented to the committee?				
Does the committee input into the external audit programme?				

ISSUE	YES	NO	N/A	Comment
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?				
Does the committee take a role in overseeing: <ul style="list-style-type: none"> • risk management strategies • internal control statements • anti-fraud arrangements • whistle-blowing strategies? 				
Membership				
Has the membership of the committee been formally agreed and a quorum set?				
Is the chair free of executive or scrutiny functions?				
Are members sufficiently independent of the other key committees of the council?				
Have all members' skills and experiences been assessed and training given for identified gaps?				
Can the committee access other committees as necessary?				
Meetings				
Does the committee meet regularly?				

ISSUE	YES	NO	N/A	Comment
Are separate, private meetings held with the external auditor and the internal auditor?				
Are meetings free and open without political influences being displayed?				
Are decisions reached promptly?				
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?				
Does the committee have the benefit of attendance of appropriate officers at its meetings?				
Training				
Is induction training provided to members?				
Is more advanced training available as required?				
Administration				
Does the authority's s151 officer or deputy attend all meetings?				
Are the key officers available to support the committee?				

Appendix 3:

Position Statement on Audit Committees in Local Government

This statement reflects the views of CIPFA's Audit Panel on the role of audit committees in local government. It emphasises the importance of audit committees being in place in all principal local authorities.

Audit committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

Guidance on implementing and running audit committees in local government lags behind other sectors. CIPFA will therefore be publishing further guidance drawn from practical examples and experience of other parts of the public sector in 2005.

The way in which an audit committee is organised will vary depending upon the specific political and management arrangements in place in any local authority. CIPFA's further guidance will explore how audit committees relate to local authorities' different arrangements for managing and governing themselves. It is not therefore appropriate to prescribe any particular model. But there are features that should be common to all:

- 1 A Statement of Purpose
- 2 Core Functions
- 3 Features
- 4 Structure and Administration

1 A STATEMENT OF PURPOSE

The local authority 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, and to oversee the financial reporting process.

2 CORE FUNCTIONS

Audit committees will:

- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements, including the Statement on Internal Control,¹⁰ properly reflect the risk environment and any actions required to improve it.
- Approve (but not direct) internal audit's strategy, plan and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the head of internal audit.
- Consider the reports of external audit and inspection agencies.

¹⁰ *"The Accounts and Audit Regulations 2003 state that the relevant body is responsible for ensuring that the body (authority) has 'a sound system of internal control'. Members and member committees should therefore establish procedures to provide sufficient assurance for them to be able to attest to this". Source: The Statement on Internal Control in Local Government – Meeting the Requirements of the Accounts and Audit Regulations 2003 (CIPFA, 2004).*

- 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.
- 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.

3 FEATURES

Good audit committees will be characterised by:

- A strong chair – displaying a depth of skills and interest.¹¹
- Unbiased attitudes – treating auditors, the executive and management equally.
- The ability to challenge the executive (leader/chief executive/mayor or whatever combination) when required.
- A membership that is balanced,¹² objective, independent of mind, and knowledgeable.

4 STRUCTURE AND ADMINISTRATION

Although no single model of audit committee is prescribed, all should:

- Be independent of the executive and scrutiny functions.
- Have clear reporting lines and rights of access to other committees/ functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.

11 *There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.*

12 *The political balance of a formal committee of an authority will reflect the political balance of the council. However, balance in terms of apolitical attitudes is as important.*

- Meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Meet privately and separately with the external auditor and head of internal audit.
- Include, as regular attendees, the chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. Other attendees may include the monitoring officer (for standards issues), chief executive and the head of resources (where such a post exists). These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the council as required.
- Be properly trained to fulfil their role.¹³

13 Further guidance will be available on the skills, knowledge and personal attributes required of committee members but key areas for training would include financial and risk management, auditing and accounting concepts and standards, regulatory requirements for financial reporting, and corporate governance.

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