

Report to Audit committee
 11 March 2014
Report of Chief finance officer
Subject Review of audit committee procedures

Item

7

Purpose

This report has been prepared following the publication of guidance for audit committees to:

- Make the members aware of the guidance.
- Review and update audit committee procedures in light of the guidance.

Recommendation

Members of the audit committee are asked to:

- (1) Consider the summary and analysis of the guidance;
- (2) Review and provide comments to the Chief finance officer on the proposed changes to the audit committee procedures; and
- (3) Discuss actions required to deliver an effective audit committee function as described by the guidance and proposed procedures.

Corporate and service priorities

The report helps to meet the corporate priority value for money services.

Financial implications

There are no direct financial implications arising from this report.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

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Report

Background

1. On 5 February 2014 cabinet endorsed changes to the council's constitution, including amendments to Article 17 – Audit Committee. These changes will be presented to council for approval on 18 March 2014. Article 17 sets out the membership of the committee and its terms of reference. This article states that the audit committee shall 'undertake the council's financial responsibilities in the manner set out in:
 - the council's audit committee procedure rules as produced from time to time by the Chief finance officer; and
 - the Accounts and Audit Regulations 2011'.
2. The audit committee procedure rules as prepared by the Chief finance officer, in line with guidance available at the time, are to be presented as an appendix to the council report.
3. The Chartered Institute of Public Finance & Accountancy (CIPFA) has now published 'Audit Committees – Practical Guidance for Local Authorities and Police'. This publication sets out CIPFA's guidance on the role, function and operation of an audit committee in local authorities and police bodies.
4. This report reviews the above guidance, presents revised audit committee procedure rules for discussion and asks the committee to consider the actions required to bring the operation of the committee in line with this new, best practice guidance.

CIPFA's position statement and practical guidance

5. CIPFA's guidance incorporates its 2013 Position Statement: Audit Committees in Local Authorities and Police. This is attached as Appendix 1 for reference. The full guidance will be made available to members through eCouncillor.
6. The guidance expands on the position statement with sections on:
 - The core functions of the audit committee
 - Possible wider functions of an audit committee
 - Independence and accountability
 - Membership and effectiveness
7. The guidance includes suggested terms of reference for a local authority audit committee, a knowledge and skills framework for committee members and a self-assessment of good practice.

Analysis

8. No changes are proposed to Article 17 of the constitution, which contains the committee's terms of reference. It is drafted at a higher level than the suggested terms of reference and is designed to be consistent with the style and presentation of the rest of the council's constitution.

9. A comparison between the suggested terms of reference in the guidance and the council's current audit committee procedure rules is set out below.

CIPFA Guidance		Audit committee procedure rules – not covered
Para.	Contents	
1,2	Statement of purpose	1,2
3-11	Governance, risk and control	5 – Value for money
12-23	Internal audit	15 – approval of significant changes to the internal audit programme and resources 16 – to make enquiries and determine any inappropriate limitations in scope or resources 17b, c – to consider, as part of the annual internal audit report, the results of the quality assurance and improvement (QA&I) programme and non-conformance with Public Sector Audit Standards and the Local Government Application Note 19 – consider summaries of specific internal audit reports as requested 21 – to contribute to the QA&I programme, and to the external quality assessment of internal audit that takes places at least once every 5 years 23 – to support the development of effective communication with the head of internal audit
24-28	External audit	26 – to comment on the scope and depth of external audit work and ensure it gives value for money 27 – To commission work from external audit
31-32	Accountability arrangements	31 – report to those charged with governance on the committee's findings, conclusions and recommendations 32 – report to council on a regular basis on the committee's performance and effectiveness.

10. Overall, the level of detail in the CIPFA suggested terms of reference is greater than that in the existing audit committee procedure rules. However, the council is moving towards higher level, simpler and more general regulations and procedures that allow committees more flexibility to develop their role within defined parameters. Therefore changes have been made in the existing audit committee procedures to cover omissions identified above and to rationalise and restructure, rather than to adopt the CIPFA suggested terms of reference as they stand.

11. The amended audit committee procedures are attached at Appendix 2, with additions and changes underlined.

APPENDIX 1

Position Statement: Audit Committees in Local Authorities and the Police

1. **Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
2. **The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
3. **The core functions of an audit committee are to:**
 - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
 - In relation to the authority's internal audit functions: oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.
 - Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
 - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
 - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
 - Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.

- 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.

4. Audit committees can also support their authorities by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
- Providing oversight of other public reports, such as the annual report.

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

- Act as the principal non-executive, advisory function supporting those charged with governance.
- In local authorities, be independent of both the executive and the scrutiny functions; in police bodies, be independent of the executive or operational responsibilities of the police and crime commissioner or chief constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies.
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.
- Report regularly on their work, and at least annually report an assessment of their performance.

6. Good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

APPENDIX 2

AMENDED AUDIT COMMITTEE PROCEDURE RULES

The audit committee will carry out its terms of reference in accordance with the following:

Corporate governance

1. Review the effectiveness of internal control across the council and the adequacy of actions taken to address any weaknesses or control failures.
2. Consider the adequacy and effectiveness of the council's arrangements for the identification and management of the organisation's business risks; including the risk management policy, strategy and risk register.
3. Receive and consider regular reports on the risk environment and associated management actions.
4. Review and ensure the adequacy of the council's anti-fraud and corruption policy and strategy and the effectiveness of their application.
5. Review and ensure that adequate arrangements are established and operating to deal with situations of suspected or actual fraud and corruption.
6. Review, consider and agree the AGS including the adequacy of the corporate governance framework and improvement action plan contained within it.
7. Receive periodic updates on improvement actions taken.

Internal and external audit

8. Approve the internal audit charter.
9. Approve and monitor delivery of the internal audit strategy.
10. Consider, endorse and monitor delivery of the internal audit annual work programme, including any significant in-year changes to the programme or resource requirements.
11. Ensure adequate resourcing of the internal audit function, approving any significant additional consulting services requested from internal audit not already included in the internal audit annual work programme.
12. Receive and consider the annual internal audit report and opinion on behalf of the council.
13. Oversee the annual review of the effectiveness of the system of internal audit, to include the performance of the internal audit function, compliance with standards and delivery of improvement actions.
14. Contribute to the external quality assessment of internal audit that takes place every five years.
15. Commission work from internal and external audit and consider the resulting reports.
16. Comment on the scope and depth of external audit work and ensure it gives value for money.
17. 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.
18. Seek assurance that action has been taken to implement the recommendations arising from the findings of significant audit and inspection work.

Statement of accounts

19. Discuss the annual audit plan for the audit of the financial statements with external audit.
20. Consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
21. Review and approve the annual statement of accounts, including subsequent amendments on behalf of the council.

Referred powers

22. Consider and make recommendations on all matters described above.
Recommendations relating to all paragraphs except 9 – 10 and 12 – 21 shall be made to the cabinet and chief finance officer. Recommendations relating to paragraphs 9 – 10 and 12 – 21 shall be made to the chief finance officer.

Accountability arrangements

23. Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
24. Report to full council on the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose.