

## Audit & Governance Committee

6 June 2006

Report of the Assistant Director (Audit & Risk Management)

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### Committee role, remit & key relationships

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#### Summary

- 1 The purpose of this report is to advise Members of the role, remit and key relationships of the new Audit & Governance Committee.

#### Background

- 2 Audit Committees play a central role in the good governance of an organisation. Whilst they are a standard feature in many parts of the public and private sectors, there has been a lack of clarity and universal sign up to their operation by councils in previous years. However the requirements of the Comprehensive Performance Assessment (CPA) are challenging authorities to put in place effective audit committees to support the proper exercise of good governance.
- 3 It was deemed appropriate to introduce a properly constituted audit committee at City of York Council for the first time, further to the recent Review of the Constitution. The Audit & Governance Committee is constituted as a non-executive sub-committee of Full Council under the terms and provisions of Article 9 of the new Constitution, as approved by Full Council on the 25 May 2006.
- 4 Best practice advice and guidance<sup>1</sup> on the management and practice of audit committees in local government has been issued recently by the Chartered Institute of Public Finance Professional (CIPFA). This sets out:
  - guiding principles for the creation and management of effective audit committees: their purpose and core function
  - key considerations in the structure and administration of an audit committee.

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<sup>1</sup> This has the effective status of non-statutory codified best practice as defined by the Accounts and Audit regulations 2003 (Amended)

## Purpose & function

- 5 CIPFA recommend that authorities formally approve a Statement of Purpose for their audit committees. The following statement is suggested for Members consideration and discussion.

***“The purpose of the Audit & Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it will 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”.***

- 6 The Audit & Governance Committee is central to the provision of effective corporate governance at the Council, which depends, in part, on a systematic strategy, framework and associated processes for managing risk. Governance is also about raising public confidence in the objectivity and fairness of financial and other reporting as well as helping to deliver improved services. This, in turn, relies upon assurance that issues raised in preparing and auditing annual accounts and other key reports have been properly dealt with. It is important that the Council gains independent assurance about the effectiveness of the mechanisms underpinning these aspects of governance. The potential benefits to be gained from the operation of the Audit & Governance Committee include:

- raising awareness of the need for internal control and the proper implementation of audit recommendations;
- increasing public confidence in the objectivity and fairness of financial and other reporting and decision making;
- reinforcing the importance and independence of internal and external audit and any other similar/related review processes (eg providing an independent view on the annual Statement of Internal Control).

- 7 CIPFA define the core function of an audit committee as including:

- consideration of the effectiveness of the authority’s risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
- seeking assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- satisfying itself that the Council’s assurance statements, including the Statement on Internal Control, properly reflects the

risk and control environment and any action necessary to improve it are undertaken;

- responsibility for approving (but not directing) the Internal Audit Strategy, Annual Plan and regular monitoring of progress and performance;
- responsibility for reviewing summary information arising from IAS reporting activities and seeking assurance that all action has been taken as necessary to rectify identified weaknesses and risk issues;
- receiving the Annual Report of the Chief Internal Auditor;
- consideration of reports of the external auditors and inspection agencies;
- ensuring there are effective relationships between the internal and external audit services, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- reviewing the financial statements of the Council, the external auditor's opinion(s) and reports to Members, and for monitoring management action in response to the issues raised by the external auditor.

8 The authorities delegated to the Audit & Governance Committee in the new Constitution have been drafted to reflect those requirements and are included in Part 3, Schedule 2 (Audit & Governance Committee) of the Constitution for ease of reference.

## Key relationships

### Internal Audit

- 9 The Audit & Governance Committee has a clear role in relation to the Council's Internal Audit Service, principally in:
- formally approving (but not directing) the overall audit strategy to make sure it accords with the Council's overall strategic direction;
  - approving an 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.
- 10 The Audit & Governance Committee's role in relation to reviewing the work carried out by Internal Audit would normally include consideration

of summaries of work done, key findings, any issues of concern and the management action taken as a result of audit work. The Committee may well also wish to judge the effectiveness of the Internal Audit function by receiving feedback on its work from key stakeholders such as the Chief Finance Officer (S151 Officer) for the Council and customers of its services. A key part of the Committee's role in relation to Internal Audit is to receive and review the Annual report of the Chief Internal Auditor to inform the Committee's view of the adequacy of the Council's internal control environment and the quality of Internal Audit coverage and impact. It is important to note that the chief internal Auditor provides independent assurance and advice to the Audit & Governance Committee and by doing so supports the discharge of the legal responsibilities of the Chief Finance Officer. The Chief Internal Auditor is designated as the Assistant Director of Resources (Audit & Risk management Services) and has rights of independent reporting and access to all records and information (as set out in Article 13 of the new Constitution and Part C of the Council's Financial regulations). In exercising her responsibilities the Chief Internal Auditor may meet in private with the Audit & Governance Committee.

## External Audit

- 11 The Audit & Governance Committee's role include receiving and considering the work of the external auditor. Whilst the work of the external auditor is largely directed by national requirements, the views of the Committee should be sought where they can add to the local 'flavour' of the work done at the Council. The Committee should normally be given a chance to comment on the inclusion of any audit work and should receive reports on agreed audit and inspection items from the external auditor's/relevant inspection body work in order to monitor the action taken. The Committee may contribute to the Council's response to the Annual letter of the District Auditor. It is not responsible for accepting the Letter as this delegated authority is reserved to the Executive. The Committee is however responsible for approving the Action Plan arising from the Annual letter of the District Auditor (reported as a separate item on this agenda) and for monitoring the action taken to respond to the matters raised. The Committee should also express its opinion on the selection and rotation of the external auditors when consulted by the Audit Commission.
- 12 The Committee may choose 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.

## Executive, Scrutiny & Standards Committee

- 13 Whilst the Committee provides assurance to the Council, to be effective (and be seen to be effective) it must act independently of the Executive. The Committee needs to retain the ability to challenge the

Executive as necessary and to report to it on major issues of non-compliance and contravention. It is crucial therefore that the Chair of the Committee is not a Member of the Executive in order to promote the objectivity of its operation and to ensure it is seen to be independent by the public at large. Similarly, whilst the Committee has a duty to scrutinise it must remain separate and independent of the Scrutiny bodies established by the Council. A link with Scrutiny may be beneficial but ultimately the power and authority of the Committee would be compromised by too much cross-membership or working arrangements and CIPFA explicitly advise against such practices in their guidance.

- 14 The link with Standards Committee is less problematic in terms of the Committee's independence. Whilst the work of this Committee and Standards Committee are not the same, they share some common concerns. The scope of the Standards Committee however is distinct in so far as it is limited to matters relating to elected members rather than the good governance and management of the organisation as a corporate entity.

## Features of an effective audit committee

- 15 The Committee should be recognised as an important body in the Council's committee structure and it should be allowed to provide essential challenge to the Executive when required. Best practice advice is that an audit committee should report independently of the Executive and Scrutiny and for this reason the Audit & Governance Committee has been constituted as a sub-committee of Full Council. CIPFA regard the key characteristics of an effective audit committee as being:
- a strong Chair who displays a depth of skills and interest in the business and purpose of the Committee;
  - unbiased attitudes and behaviours towards auditors, the Executive and management;
  - the ability and confidence to challenge the Executive when required;
  - a membership that is politically balanced, objective, knowledgeable and independent of mind;
  - meetings that are characterised by free and open discussion by all Members without political influences being displayed;
  - prompt and timely decision making on matters referred for Committee consideration;
  - financial understanding in the consideration of issues;
  - preparedness to monitor and chase managers for responses and action following an audit report should this be necessary.

- 16 In order to be effective, an audit committee needs a Chair and Membership that is knowledgeable, experienced and interested in matters of audit and governance. CIPFA consider that audit committees do benefit from having Members with financial awareness, a proper regard for the function of audit, independence of thinking, and a balanced approach to significant issues. The ability of Members to question, probe and seek clarification about complex issues is also essential. In order to exercise their function effectively, it is recommended that Members of the Committee need to be familiar with:
- the governance agenda – this includes an understanding of the requirements of legislation and local arrangements/regulation;
  - risk management and the requirements of the Comprehensive Performance Assessment in this regard;
  - internal control assurance and again the requirements of the Comprehensive Performance Assessment in this regard;
  - the Council's core activities
  - accounting issues and the overall financial health and well-being of the Council a corporate entity;
  - regulation and compliance.
- 17 Training events will be organised during the course of the coming year to support Members as necessary in discharging their responsibilities as members of this Committee. Members views on this and what they might have a particular interest in attending would be very welcome at this juncture.

## Options

- 18 Not relevant for the purpose of the report.

## Analysis

- 19 Not relevant for the purpose of the report.

## Corporate Objectives

- 20 This report contributes to the overall effectiveness of the Council's internal management & assurance arrangements in helping to achieve of the following corporate objectives;
- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
  - Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).

- Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
- Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).
- Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
- Implement risk management and business continuity procedures. (Objective 8.10).

## Implications

- 21 There are no financial, HR, equalities, legal, crime and disorder or IT&T implications arising from this report.

## Risk Management Assessment

- 22 Not applicable to this report

## Recommendations

- 23 Members are asked to note the content of this report and specifically to:
- a) consider the proposed Statement of Purpose for the Committee set out at paragraph 5 for adoption by this Committee;

Reason

*To ensure the effective management and operation of the Committee and promote understanding of its purpose and function at the Council*

- b) consider what kinds of training should be provided to best support Members of the Committee in the proper discharge of their responsibilities as necessary.

Reason

*To support the proper function of the Committee*

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**Chief Officer Responsible for the report:**

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**Report Approved**

Yes

**Date** 25 May 2006

**Specialist Implications Officer(s)** Not applicable

**Wards Affected** Not applicable

All

**For further information please contact the author of the report**

**Background Papers**

*The Council Constitution:*

*Part I Articles 9, 13 & Part 4 Financial regulations*

*Audit Committees:*

*Practical Guidance for Local Authorities*

*CIPFA Publications*

**Annexes**

**None**